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West Europe Report

(FOUO 51/81)



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THEATER FORCES

FRANCE

SS-20 SEEN AS MODERNIZATION; PERSHING 2 SEEN AS ESCALATION

Paris LE NOUVEL OBSERVATEUR in French 29 Aug-4 Sep 81 pp 37-39

[Article by Francois Schlosser, chief foreign editor: "Will Europe Burn?"]

[Text] Will Pershing 2 missiles be deployed in NATO countries to counterbalance the Soviet SS-20 missile threat? Francois Schlosser explains why he believes moving a major piece on the chessboard of nuclear terror would have very serious consequences.

"You blow up my gasoline dumps; I atomize your marshaling yards in response. You then burn six of my weapons manufacturing plants; so I destroy two of your headquarters and four airports. You blast three of my missile sites, I vitrify two of your naval bases..." Deterrence has failed. War has broken out in Europe. Soviets and Americans continue to escalate in tit for tat fashion. It's a question of who will lose their nerve first and hesitate to raise the level of violence another step closer to the apocalypse. Both superpowers are now exchanging "Eurostrategic" blows: SS-20 missiles launched from the USSR against European targets; Pershing 2, Polaris, Poseidon, and cruise missiles fired in Europe against targets in the Soviet Union. After a few days of such exchanges, Europe is burnt, radioactive, and fatally wounded. The USSR has already suffered heavy damage. The United States is unscathed. What will happen? Will the two superpowers give up or resort to their intercontinental weapons?

As Europeans, however, we are no longer interested in what happens next. Consequently, let us come back in time to the present when it is still possible to ask ourselves: What is happening today? Soviets and Americans are both arming themselves with new highly accurate weapons enabling them to fight a limited nuclear war in Europe. To cope with a qualitative leap forward made by the Soviets with the SS-20 missile, NATO has decided to make its own new qualitative and quantitative leap forward by deploying in Europe, beginning in 1983, American Pershing and cruise missiles capable of striking Soviet territory. This was a momentous decision.

Throughout Europe, all those persons who question the wisdom or quite simply the rationality of this NATO decision find themselves in a ticklish position. They are suspected of pacifism, anti-Americanism or neutralism. It is astonishing that a debate of such urgency and gravity, because it directly involves Europe's future and

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survival, should have so grossly dodged and confused the issue and degenerated into invective. A clear explanation for the benefit of public opinion ought to be possible. But there has been no such explanation. Yet there are highly qualified men, including experts and top-level military officials, who consider this rearmament unnecessary or the method chosen--deploying land-based missiles on European soil--unjustified. Chancellor Schmidt himself has expressed some personal reservations about the nature of the weapons chosen. Nevertheless, officials have been rushing implementation of this decision with almost frantic doggedness, openly fearing that negotiations with the USSR might delay it.

This is a truly disquieting situation. First of all, because of the way only one weapon was chosen and isolated--the Soviet SS-20--and portrayed as a sort of mythical, diabolical missile. The SS-20 missile is actually derived from an older version, and admittedly its accuracy and the miniaturization of its warhead have been greatly improved. It is not a very mobile system--if highly mobile, it would be invulnerable--but a semimobile weapon requiring large concrete emplacements built in advance, and hence located by satellite and easily targeted by existing Western missiles. It is calculated that there are currently some 30 of these launch sites west of the Urals, all of them ideal and highly visible targets for a small number of NATO missiles. The Pershing 2 missile the Americans want to introduce in Europe is 10 times more accurate and its warhead is 10 times more miniaturized than the SS-20.

Nevertheless, some well-meaning individuals are doing their utmost to convince Europeans that this time they are facing an ogre that is going to devour them. The petty details of the intrigues that led to NATO's decision to rearm are most enlightening in this regard. In the beginning, nobody had taken any notice of the SS-20 missile, the latest addition to the Soviet arsenal, detected for the first time about 1975. It is now already more than 20 years ago that the Soviets deployed some 700 medium-range SS-4 and SS-5 missiles in the USSR, all aimed at Europe. They had virtually been forgotten. They became old, and the Red Army, fully occupied in more urgent tasks--closing its ICBM gap with the United States--let these 700 1-megaton dinosaurs rust in their silos. Each one resembles a sort of factory; they burn only liquid fuel and handling them is an extremely time-consuming and difficult task. The International Institute for Strategic Studies in London reports that scarcely 100 of the approximately 400 SS-4's and SS-5's still operational are likely to reach their target. The others would explode in their silos at the moment of ignition or vanish into thin air.

In the meantime, NATO countries have assembled, over the years, an altogether respectable medium-range (Eurostrategic) nuclear arsenal, one capable, in any event, of blasting European Russia back into the Stone Age. This array of weapons exists precisely to counterbalance the Soviet SS-4's, SS-5's, and medium-range bombers menacing Europe. Moreover, NATO did not refrain from continuously upgrading these weapons consistent with the latest state of the art. This arsenal consists mainly of bombers capable of carrying nuclear weapons and stationed on American forward bases in Great Britain and aboard aircraft carriers in the Mediterranean, as well as several hundred nuclear warheads on submarine-launched MIRVed missiles. To which the Soviets add-to depict the magnitude of the Eurostrategic threat from their point of view--the nuclear forces of Great Britain and France.

But of all the NATO Eurostrategic forces, the Kremlin views the American forward bases as the most acute threat. In fact, the Soviets see them as an extension of the American strategic and intercontinental arsenal, and capable, therefore, of tipping the overall balance in favor of the United States. This is why they have constantly

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insisted, from the very start of the SALT negotiations, that these weapons be taken into account. Indeed, on several occasions they have proposed talks on the limitation of atomic weapons in Europe. For a long time, the Americans ignored such proposals until finally they agreed to discuss these Eurostrategic weapons in the future SALT 3 negotiations. But everyone knows what happened to SALT and to arms control in general: Reagan pigeonholed them.

Gamble on a Bluff

The Kremlin began modernizing its Eurostrategic arsenal to strengthen it, of course, but also to have something with which to bargain when the inevitable negotiations on medium-range weapons in Europe opened. For the Soviet SS-4's were falling to pieces and had really ceased being a serious threat. Modernization meant incorporating the last word in technology. The West which has not kept a single missile as obsolete as the SS-4 in its arsenal, knows a thing or two about modernization. Thus the SS-20 was born, and now there are some 160 of these missiles targeted at Western Europe, gradually replacing older missiles. What is the actual scope of the threat they present?

In the flood of false data and doctored statistics that constitute the essence of NATO's case in favor of its own weapons modernization program, there is one argument that is worth serious examination, the argument of "controlling escalation." Being able to "control escalation" means having the capability of matching the enemy blow for blow, but with weapons of the same caliber or same level. If the Red Army begins to use its SS-20 Eurostrategic missiles and if the President of the United States has no equivalent response, he is unable to control escalation. Because there is a gap in his overall defense capability, he is compelled either to stand aside or skip several rungs in the ladder of escalation and use his ICBM's. In so doing, however, he will inevitably draw nuclear fire on American cities. To avoid being faced with such an agonizing choice, the Americans will be obliged, even in peacetime, to be prudent and very flexible in the event of a serious crisis. In other words, the USSR has a military advantage it can exploit politically.

Another "iffy" scenario that would confirm this conclusion: the USSR, thanks to the accuracy of its SS-20's, eliminates one or more NATO armies by destroying all important military objectives in a surprise attack. Having no weapons equivalent to the SS-20's, the Americans, in this case too, could only resort to their ICBM's, thereby triggering a global holocaust for the sake of a Europe that is already lost. Such an American response is not credible enough to deter the enemy. Conclusion: in both of the above cases, the USSR stands a good chance of winning a nuclear war in Europe. Consequently, in peacetime, it can hold over the West the threat of a victorious nuclear war against Europe and use this threat to derive political advantages therefrom.

This highly sophisticated argument ought to convince the most skeptical minds. One has to assume, of course, that the Soviet leaders, who only just recently commemorated the 40th anniversary of Hitler's aggression--which cost 20 million Russians their lives--are prepared to gamble the survival or almost total destruction of the USSR and its people on a bluff. Admittedly Europe is, of course, a very nice prize.

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Yet how could the Soviets possibly carry out such a bluff without NATO countries having responded with all of their weapons by launching retaliatory strikes against Soviet territory? Of what use then would be all those bombers on American forward bases and aboard carriers in the Mediterranean, and especially all those invulnerable American and British submarine-launched missiles assigned to the defense of Europe? Have not all of these aircraft and missiles been deployed specifically to preclude Americans from having to use their intercontinental arsenal in the event of a Soviet attack, even one on a large scale but limited to Europe?

Unless they were collectively stricken with a fit of madness, Soviet leaders cannot take that risk nor delude themselves into thinking such an attack would go unpunished. Therein lies the crux of the problem. On the one hand, the USSR is credited with a disarming first strike capability it really does not have because it cannot cripple all of NATO's available Eurostrategic forces by surprise attack; on the other hand, speculation about totally irrational behavior by the Kremlin is used as the basis of an argument which has all the appearances of exceptionally rational sophistication, namely the threat of a victorious nuclear war by the USSR against Europe.

In reality, this argument was elaborated ex post facto to justify deployment of the new U.S. missiles in Europe. When in 1977, Helmut Schmidt first called NATO and U.S. officials' attention to the modernization of European-oriented Soviet nuclear weaponry, it was in the hope of getting the two superpowers to negotiate about all of the so-called Eurostrategic weapons. The German chancellor, noting how the Soviets were modernizing their arsenal with SS-20's, believed European inferiority had to be offset by new means, but only if (future) negotiations failed.

The Americans were initially reluctant. But Schmidt's remarks had not fallen on deaf ears among the "defense community's" prolific multitude. That community encompasses all those persons who are directly or indirectly engaged in military matters, whether it be in industry, laboratories, universities, research institutes, financial institutions, or government departments and agencies. For this particular military-industrial-university microcosm, Schmidt's misgivings opened unexpected prospects. "Made-to-order" doctrines were very quickly prepared to rationalize the idea of deploying American ground-launched cruise and Pershing 2 missiles in Europe, missiles that were already in a very advanced stage of development.

Battlefield a la Carte

When Helmut Schmidt learned that they were going to foist on him something Konrad Adenauer had always managed to avoid, namely basing in Germany nuclear delivery vehicles aimed at the Soviet Union's territory, he rued his earlier remarks and tried to convince the Americans to drop their plan. He preferred a naval solution, arguing that they could very well increase the capabilities of the submarine-launched missiles assigned to the defense of Europe, or else build new missiles to be based at sea in submarines or on surface ships. It was too late, however. The Americans now wanted ground-launched missiles to be based in Germany.

At this point, some readers might interject: "Quite so! the case presented by those defending resumption of the arms race by deploying American Pershing and cruise missiles may not be clear; it has too many gaps, too many obvious falsifications, too many cleverly disguised weaknesses. But why make such a fuss when there are already so

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many nuclear weapons in Europe, on both sides? Why fiddle-faddle over the few hundred additional weapons the Americans want to store here? It can only make the Soviets reflect a bit more if, by misfortune, they are ever tempted to use the 'unthinkable' bluff."

Unfortunately these few new missiles do change everything, nor is this fact explained to European public opinion. They constitute a critical change of direction, the start of a new technical-military race, a specific option on a certain kind of future for Europe. First, it was not by chance that the Americans, initially reluctant and subsequently interested, suddenly became adamant on the issue of basing these missiles in Europe. The fact is that America greatly changed in the space of a few months. The new administration adopted an idea that had slowly matured under the two preceding administrations, that of a limited nuclear war that can be won. For Reagan, Weinberger, the Pentagon's boss, and Haig, the secretary of state, whose course of action is one of confrontation with the USSR, everywhere and in all fields, war in Europe has become one hypothesis among others.

In the view of this administration which is preparing to spend 1.5 trillion dollars on defense in 5 years, and whose thinly disguised objective is to reestablish America's military and strategic superiority over the USSR, deployment of Pershing 2 missiles in Europe has become more than a test. It is a highly attractive venture, and unexpected short cut to bringing the USSR to its senses. This weapon system's capabilities, accuracy, and speed are such that the USSR has no means of countering it and not even any warning of its launch. It can strike at targets in the heart of European Russia within 5 or 6 minutes. And this time, the roles are reversed. To respond to these missiles launched from Europe, the USSR is the one that would have to decide whether or not to strike at America, and thereby take it upon itself to bring about the apocalypse. As for the Pershing 2, its extreme accuracy and miniaturized warhead actually enable it to follow a "surgical strike" strategy.

What Europeans can fear is that the United States--after having added this European-based "wonder weapon" to all the other means it already has of containing the USSR--may also be tempted, if not to use it, at least to threaten to do so, even in situations arising from conflicts outside Europe. This is not a baseless fear. One need only listen to top-level U.S. officials as they explain their new doctrine of military rivalry with the Kremlin: America will not permit others to dictate the battlefield; if the USSR attempts to intervene in a region of the globe where the United States finds itself in an unfavorable military position, it will retaliate in other theaters of operation in which it holds an advantage. For American strategists, the Pershing 2 will be but one of a series of options. Hence by the force of circumstances, its function will be much broader than simply defending Europe.

Choosing this weapon system primarily means, therefore, choosing a definitive transfer of Europe's control over the vital issue of security. For Europeans, it also means the guarantee of greater insecurity. And all this in the name of a concept no one has sought to clarify, the concept of "Eurostrategic balance." This is a notion that emerged as if by magic in the vocabulary of the experts. Is superimposing European-Soviet parity upon American-Soviet parity a conceivable approach? How can the Soviets be prevented from including in the global strategic balance all American weapons, even if they are deployed in Europe, when those weapons are capable of striking the USSR? And if, for their part, Europeans truly want a balance, shouldn't they include in their calculations all of the Soviet

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weapons capable of striking Europe as well as the United States? In that case, what would the implications of a "Eurostrategic balance" be? Eurostrategists haughtily neglect to answer these basic questions?

Is there any good reason for Europe to rush into a new arms race without first trying to clarify the issues, an arms race which guarantees it, at best, increased dependence on America and, at worst, nuclear suicide, the date and hour of which it even will not have been able to choose?

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THEATER FORCES

FRANCE

DIVIDED, NEUTRALIST VIEWS SAID TO PREVENT REALISTIC DEFENSE POLICY

Paris LE NOUVEL OBSERVATEUR in French 29 Aug-4 Sep 81 pp 40-41

[Article by Jacques Julliard: "The Blind Supporters of Detente"]

[Text] We must put an end, as Cornelius Castoriadis does in his latest book, to the idea that the Soviets are defending themselves somehow or other against a hostile world that is encircling them. The truth is that the Soviet Union is on the offensive everywhere. And the time has come to draw the appropriate conclusions from such Soviet action.

The great debate of the 1980's will initially be militant and then economic. Identification of the authoritarian regimes of the East with socialism, that great hoax of the past half century, is completely fading. So much the better for socialism. So much the better especially for the countries of the East that up to now have not even been entitled to acknowledge their misfortune and are now at the dawn of a great revolutionary period. Like it or not, Eastern Europe is where the storm belt is now located; and also where the future of the workers "self-management" movement lies. Led by men who have risen from their own ranks, Polish workers have thrown off the yoke. Supported by a Catholic Church that has never stopped fighting Stalinism, an entire people began marching forward, thereby recording the most glorious date in the history of the proletariat since the Commune of Paris: Gdansk, August 1981.

The band of tyrannical old men ruling over Moscow knows that its system of domination is doomed in the somewhat long run. It fears the contagion of the Polish workers movement and is hesitant about the best way of suppressing it. Therein lies one of the main reasons for its present militarism and expansionist tendencies. A threatened regime reacts by taking the offensive to evade that threat, and also by taking the offensive outside its borders. That is why the period which opened with the invasion of Afghanistan and the continuous threat the USSR holds over Poland's internal independence is the most dangerous to the peace we have known since World War II.

'Hardware'

There is absolutely no doubt that since the American defeat in Vietnam, the USSR has taken the offensive in most regions of the world. Carter's idealistic pacifism--somewhat reminiscent of the aging Roosevelt's version, but within a context much less favorable to the United States--did the rest. Taking advantage of the American retreat, the USSR consolidated its gains (in Africa and Asia) and built up its

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military strength (in Europe). From that time onwards, American public opinion was critical of Carter's policy despite its definite successes in Latin America. And today Brezhnev is in a very poor position to denounce Washington's "cannibalistic" (sic!) tendencies. Indeed he, Brezhnev, together with Ayatollah Khomeyni, was Reagan's leading and most effective political campaigner. Reagan is now taking up the Soviet challenge, and the world has entered a new cold war phase.

The foregoing considerations will help to better understand the subject and import of Cornelius Castoriadis' latest book "Devant la guerre" [In the Face of War] (published by Fayard). Be careful, "devant" definitely does not mean "avant" [before]! This is somewhat reassuring. Nevertheless, Castoriadis' numerical assessment implies that in the final analysis the ratio of forces overrides all other considerations in East-West relations once again. Not that the economic war has lost its importance nor that the North-South confrontation between rich and poor countries is losing its position as a topic of current interest. It is a fact, however, that in the world of 1981, the detailed breakdown of military strength, of "hardware," or "dead forces" as Castoriadis also calls it, dominates the diplomatic scene.

After a detailed analysis supported by recent data compiled by the International Institute of Strategic Studies in London, the author concludes that there is a growing imbalance in the ratio of forces in favor of the Soviet Union. Like all data related to classified military information, the data used by the author may be contestable. I believe, however, that its general thrust itself is incontestable, namely that the USSR is steadily gaining ground. Although in the area of strategic nuclear weapons--ICBM's covered by the SALT discussions between the two superpowers--American inferiority in tonnage is temporarily offset by a superiority in number of warheads, the same is not true for medium-range missiles that have an annoying propensity for deployment in the European theater, hence their designation as Euromissiles. The gradual replacement of obsolescent Soviet equipment--SS-4's and SS-5's--by multiple-warhead SS-20 missiles creates a serious military imbalance in Europe, one that Francois Mitterrand had the courage to denounce strongly before and after his election as president. Hence Moscow's bitter remarks about him and accusations that he is an extreme Rightist. If unquestioning trust in the Kremlin's peaceful intentions is the criterion of a person's position on the Left-Right axis, then the President of the Republic is indeed on the far Right. Brezhnev's moratorium proposal made at the 26th CPSU Congress would render negotiations thoroughly unequal. Under the terms of the moratorium, Soviet SS-20 missiles would be allowed to remain deployed but NATO would be prohibited from responding by basing Pershing 2 and cruise missiles in Germany, Great Britain, Belgium, and the Netherlands. Brezhnev's proposal must be taken for what it really is, a propaganda gesture.

The Soviets do, of course, point out that while improving the quality of their missiles, the current modernization program does not increase their number. They pretend to forget that at the time of the SS-4's and SS-5's, NATO had, as a counterbalancing force, Thor and Jupiter missiles based in Great Britain, Italy, and Turkey, and has withdrawn them since then in favor of missile-launching submarines. But above all, the Soviets "forget" that back then their superiority in Euromissiles was for the purpose of offsetting their inferiority in ICBM's. Lacking the capability of striking the U.S. homeland, the Soviets were taking Europe as hostage. Now that the ICBM gap has been filled and the USSR can strike directly at its main adversary, Soviet predominance in the European theater can be interpreted in no other way than

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offensive and a threat to us. Likewise, we doubt that the 50,000 tanks the Soviets have accumulated are designed for a landing on the New Jersey coast.

Refusal to be Informed

The neoneutralism now spreading on a foundation of antinuclear pacifism throughout the FRG, Great Britain and the Netherlands--and which the PCF and CGT are trying to establish in France--obviously would deadlock any change in the ratio of forces on European territory, a ratio that is currently in favor of the Soviet Union. The 1950 Stockholm Appeal was a propaganda-inspired hoax. American supremacy limited its effects, however. It might even be argued that the appeal contributed to restraining possible American preventive war temptations. Today, however, neoneutralism, far from serving as a counterbalance, actually increases the imbalance. Under these circumstances, we may rightly conjecture about the reasons this neoneutralism evokes such an echo in neighboring countries.

First, the desire not to be informed. European public opinion in its legitimate desire for peace has become so accustomed to viewing detente as a permanently established fact that any adverse information is automatically ignored or underestimated. This would not be the first time that blind pacifism has become militarism's unwitting auxiliary. Who today would venture to state that the USSR wants war? No one, and rightly so. As Castoriadis explains, the USSR does not want war but victory.

The fact is that USSR's postulate of pacifism is the last refuge of progressivism in dissaray. It should be clearly understood that the USSR is not a proletarian state but a police state. Privilege reigns there, not socialism. The "gulag" is not a mistake made by the system, it is one of the system's foundations. Pacifists tell you: "That is immaterial, Soviet leaders, pressured by their public opinion," (no joking!), "do want peace." Indeed, it is this morbid obsession with peace and security that explains a few rare incursions made by these oversensitive leaders into Hungary, Czechoslovakia, Afghanistan, and tomorrow perhaps into Poland. For what purpose? This large country, one of the world's two most powerful, is also, my word of honor, the globe's most timorous country. It trembles at the mere rustling of leaves. Hence its morbid fear of encirclement, which unfortunately the roundness of the earth continues to foster. Alas, we just have to accept and deal with the fact that as long as they have neighbors, these unfortunate people will not sleep in peace.

Alain's Mistake

Lastly, the ambivalence of European-American relations adds to this climate of resignation disguised as optimism. As concerns Atlantic relations, we have entered an era of suspicion. Europeans accuse Americans of cynicism. Americans suspect Europeans of appeasement, another Munich. To sum up the situation, we could say that when Americans look as if they are going to "decouple" their defense from Europe's defense, they are accused of abandoning Europe; when, on the contrary, they couple the two defenses, they are accused of taking Europe for a battlefield. This shows that Atlanticism and neutralism are not two opposing attitudes but the two complementary sides of Europe's one and the same powerlessness.

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The truth--and on this point Mitterrand's views are akin to De Gaulle's--is that only renegotiation of the Atlantic Alliance on the basis of equality of duties and responsibilities would enable us to get out of an impasse that the cold war has made extremely dangerous. But this presupposes--let us not be afraid to admit it--a common European political will which hardly exists.

In short, I view as well-founded the diagnosis which is the very heart of Castoriadis' book. The USSR is and will increasingly be a stratocracy, that is to say a military government that deliberately sacrifices civilian objectives for an indefinite build-up of its military forces with the aim of increasing their offensive capabilities. The author offers a few impressive illustrations of this trend. All examples have to do with the creation of a veritable military society whose efforts are totally directed to arms production, a society entirely separate from the "civil" society. Everything in this military society is different: working conditions, wages, productivity, and the quality of its products.

It is not always wise to presume an adversary has the same type of rationality as oneself. Yet this was the postulate which Alain, for example, was not afraid to apply to Hitler himself on the eve of World War II, in order to justify his own pacifism. (There is no assurance, as Castoriadis notes, that the term "unacceptable damage" means the same thing to Westerners and to Soviet leaders). Granted the present situation is not the same as in 1938. Nevertheless, the past does contain a lesson that is still valid, namely that optimism, when it claims to replace rigorous analysis of the facts, is the primary form of acquiescence to misfortune.

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ECONOMIC

FEDERAL REPUBLIC OF GERMANY

TRENDS IN ONE HUNDRED LARGEST ENTERPRISES

Hamburg CAPITAL in German Aug 81 pp 26-27

[Text] The weakened economy is not reflected in the 1980 sales figures of large German enterprises. Almost all of them showed increases over 1979. The rates of increase, however, are deceptive with respect to the earnings picture of most companies: In general, profits declined.

In the middle of May 1981, when Dr Gerhard Prinz, head of Daimler-Benz, and Edzard Reuter, his chief financial officer, presented to the economic press the 1980 annual report, the journalists registered more or less casually that the Stuttgart automobile plant had--once again--increased its sales. Since at that time only a few financial statements of German corporations had been published, the actual quality of the Untertuerkheim final balance remained hidden. Anyway, Daimler-Benz is one of the few companies that was able to increase its earnings over 1979.

Only later it became evident: The majority of the companies had to be satisfied with profits that were lower than last year's. A few of them even registered substantial losses. Among the biggest losers were firms which, like Daimler-Benz, are building automobiles. The list of losers is headed by the Cologne Ford Works, which experienced a decline in earnings of DM946 million when compared to 1979. The next highest loser, which followed at a considerable distance although losses were also high, was the second U.S. automobile enterprise: The Adam Opel AG in Ruesselsheim recorded earnings that were DM664 million lower than last year's figure. Even the profits of the Volkswagen Work in Wolfsburg were down by DM346 million when compared to last year--as a result of sluggish sales but also because of extremely poor business in Brazil, in the United States and for the office-machine subsidiary of Triumph-Adler. The decline in automobile sales did not affect the Bavarian Motor Works in Munich, although they were out-distanced by Daimler-Benz.

Among the few companies that increased their earnings in 1980 also are the German Gold and Silver Separation Installation, the Metal Company and the PREUSSAG Mining and Metallurgical Corporation. Apparently these companies were particularly adept at profiting from the ups and downs of metal prices. In addition, they benefited from the strength of the American dollar and the English pound, which increased their earnings considerably compared to 1979.

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The remaining German enterprises--apart from a few individual cases--had to present their stockholders or parent companies with emaciated profit accounts for 1980. Some even had to report losses. The industrialists were quick in locating a scapegoat for this negative development: steep price increases for primary and secondary energy, of course. The Association of Chemical Industries, for instance, is complaining about a "price jump of between 25 and 30 percent" for the most important raw materials (primarily crude oil) and energy.

Friedrich Karl Flick, who manages a wide variety of industries and services (Feldmuehle, Dynamit Nobel, Buderus, Krauss-Maffei, Gerling Insurance and others), cites a figure that sounds ominous, but it represents the energy consumption necessary for production: "In spite of all conservation efforts," energy costs in his empire rose by approximately 16 percent. At any rate, it represents an increase of DM75 million marks over 1979, which had to be paid by Flick's Feldmuehle and the other concern companies in 1980--while the annual profit amounted to slightly more than DM77 million. Rolf Sammet, manager of the Hoechst AG, is concerned about the rapidly increasing energy prices, wondering seriously whether in the long run the FRG could be the right location for chemical industries.

As is the case with respect to increased sales figures for 1980--which frequently even reach 2-digit growth rates--sales prognoses or estimates for the current year are clouding the earnings picture of the German industry. Because almost all enterprises are expecting higher or at least unchanged sales. Continuing increases in costs, frequently paired with price concessions, however, leave little hope for improvement with respect to earnings. The steep decline in profits continues. Concern Manager Flick describes the situation in the following verdict: "Compared to 1979, 1980 was unsatisfactory; compared to 1981, it was still acceptable."

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Rang 1980	Rang 1979	Firma (2)	(3) Branche	(4) Umsatz in Millionen Mark	(5) Änderung des Umsatzes in Prozent	Beschäftigte 1980	Trend 1981	Rang 1980	Rang 1979	Firma	Branche	Umsatz in Millionen Mark	Änderung des Umsatzes in Prozent	Beschäftigte 1980	Trend 1981
1	1	Veba	(27) Energ./Öl/Chem.	41954	+ 14,6	83936	—	52	55	Agfa-Gevaert	(92) Foto	4401	+ 21,7	31799	+
2	2	Volkswagen	(28) Auto	33288	+ 8,1	258000	+	53	48	Deutsche Philips	(93) Elektro	4387	+ 4,1	28000	+
3	4	Siemens	(29) Elektro	31960	+ 14,1	344000	+	54	45	Mannesmann	(94) Röhren	4354	— 3,5	29839	+
4	5	Daimler-Benz	(30) Auto	31054	+ 13,5	183392	+	55	51	BAT	(95) Zigaretten	4128	+ 3,4	3811	+
5	3	BASF	(31) Chemie	29991	+ 7,0	116518	+	56	56	VEW	(96) Energie	4030	+ 18,6	7461	+
6	6	Hoechst	(32) Chemie	29915	+ 10,5	186850	+	57	53	BBC	(97) Elektro	4018	+ 1,3	37615	+
7	7	Bayer	(33) Chemie	28826	+ 10,9	181639	+	58	57	KWU	(98) Kraftwerke	3770	+ 23,4	13600	+
8	8	Thyssen	(34) Stahl	27128	+ 7,0	152089	+	59	59	SEL	(99) Elektro	3351	+ 7,5	33195	+
9	10	Deutsche BP	(35) Mineralöl	22272	+ 12,0	10102	—	60	60	Elf	(100) Mineralöl	3306	+ 12,0	980	—
10	9	Veba Öl	(36) Chemie	19685	+ 19,1	24962	—	61	69	Messerschmitt-Bölkow-Blohm	(101) Luft-/Raumfahrt	3304	+ 24,2	26287	+
11	11	RWE	(37) Energie	18263	+ 16,6	68007	+	62	68	Schering	(102) Pharma	3220	+ 19,1	21294	+
12	13	Esso	(38) Mineralöl	17694	+ 15,8	4567	—	63	70	Continental Gummi	Reifen (103)	3160	+ 20,5	30727	—
13	14	Deutsche Shell	(39) Mineralöl	17104	+ 14,7	4878	—	64	61	Stahlw. Röchling-Burbach	Stahl (104)	3030	+ 1,0	25770	—
14	11	Burkhardt & Wälchli	(40) Bergbau	16422	+ 1,2	136816	—	65	95	Papierw. Waldhof-Aschaffenburg	Papier (105)	2961	+ 19,8	11299	—
15	16	Gießholfnungshütte	(41) Maschinen	15417	+ 13,2	86106	+	66	68	Nestlé-Gruppe	Lebensmittel (106)	2942	+ 6,3	12700	+
16	15	AEG-Telefunken	(42) Elektro	14681	+ 3,3	138100	+	67	65	VAW	Aluminium (107)	2931	+ 7,7	16973	—
17	17	Fried. Krupp	(43) Stahl/Werft	13919	+ 8,9	85706	+	68	67	Deutsche Solvay	Chemie (108)	2886	+ 6,7	13870	+
18	18	Mannesmann	(44) Röhren/Masch.	13109	+ 4,9	103491	+	69	—	Röchling	Maschinen (109)	2884	—	18700	+
19	19	Evel (Hoesch-Hoogovens)	(45) Stahl	12794	+ 7,4	46600	+	70	73	Boehringer Ingel.	Pharma (110)	2864	+ 13,2	20985	+
20	22	Bosch	(46) Elektro	11809	+ 9,3	120020	+	71	72	Mannesm. Demag	Maschinen (111)	2822	+ 8,9	23000	+
21	23	Quandt	(47) Fahrzeuge/Elektro	10400*	+ 10,0*	70000*	+	72	66	Oetker	Lebensmittel (112)	2800*	+ 3,0*	15000*	+
22	25	Metallgesellschaft	(48) NE-Metalle	9417	+ 9,0	27220	+	73	74	Dynamit Nobel	Chemie (113)	2790	+ 8,7	14802	—
23	24	Preußag	(49) NE-Metalle	9412	+ 15,3	21283	+	74	71	Linde	Kühltechn./Anl. (114)	2750	+ 5,8	19548	+
24	20	Adam Opel	(50) Auto	9224	— 15,5	59876	+	75	62	Martin Brückmann	Zigaretten (115)	2704	— 0,1	4362	—
25	29	Deutsche Texaco	(51) Mineralöl	9026	+ 22,7	4827	—	76	64	Grundig	Elektro (116)	2740	— 1,2	30767	—
26	26	Wintershall	(52) Mineralöl/Erdgas	8850	+ 12,3	16924	—	77	76	Stahlwerke	Stahl (117)	2671	+ 9,3	17150	—
27	33	Mobil Oil	(53) Mineralöl	8763	+ 29,0	2415	—	78	75	Thyssen Edelstahl	Stahl (118)	2619	+ 6,4	15794	—
28	21	Ford-Werke	(54) Auto	8691	— 20,3	49767	+	79	79	Stre jag	Bau (119)	2591	+ 14,8	19393	—
29	36	Hegussa	(55) Chemie/Metalle	8647	+ 42,7	20569	—	80	100	No. dd. Affinerie	NE-Metalle (120)	2506	+ 37,5	3339	—
30	30	Salzgitter	(56) Stahl/Werft	8578	+ 19,2	56574	—	81	82	Ba. erwerk	Energie (121)	2441	+ 8,1	7138	+
31	24	Flick	(57) Chemie/Papier/Maschinen	8427	— 3,6	46891	+	82	77	Bi. finger + Berger	Bau (122)	2439	+ 6,0	23970	+
32	28	BMW	(58) Auto	8117	+ 9,6	43241	+	83	84	B. sch-Siemens-Hausgeräte	Elektro (123)	2437	+ 11,0	13410	+
33	27	Deutsche Unilever	(59) Lebens-/Waschm.	8095	+ 6,3	35334	+	84	88	Seag	Energie (124)	2431	+ 18,0	4074	+
34	31	MAN	(60) Fahrzeuge/Masch.	7833	+ 10,8	63600	+	85	78	Polygram	Schallplatten (125)	2417	+ 6,2	13182	—
35	32	Henkel	(61) Chemie	7629	+ 11,6	33567	+	86	123	B. d. Chemie	Petrochemie (126)	2405	+ 67,7	3036	—
36	34	IBM Deutschland	(62) Elektronik	7380	+ 11,9	26362	+	87	80	Z. Friedrichshafen	Getriebe (127)	2379	+ 6,1	23964	+
37	37	Philipp Holzmann	(63) Bau	6266	+ 8,5	43400	+	88	99	V. C. Heraeus	NE-Metalle (128)	2356	+ 28,7	6308	+
38	34	Krupp Stahl	(64) Stahl	6164	+ 16,5	40889	—	89	84	V. ri-Zeiss-Stiftung	Optik/Foto (129)	2339	+ 8,7	30651	—
39	43	Hochtief	(65) Bau	6079	+ 21,2	31083	—	90	90	W. ri-Zeiss-Stiftung	Teerchemie (130)	2314	+ 13,7	12167	+
40	35	Reemtsma	(66) Zigaretten/Bier	6002	— 6,3	11703	—	91	92	FAG Kugelfischer	Wälzlager (131)	2291	+ 15,2	30200	—
41	36	Huls-Gruppe	(67) Chemie	5699	+ 4,0	22642	—	92	83	M. tirus-Deutz	Fahrzeuge (132)	2283	+ 3,3	11870	+
42	41	Preußenelektra	(68) Energie	5626	+ 11,1	15014	+	93	93	Rhe nbraun	Bergbau (133)	2263	+ 16,9	16631	—
43	43	Klöckner-Werke	(69) Stahl	5561	+ 10,9	29899	—	94	87	Freu lenberg	Kunststoff (134)	2246	+ 7,2	23900	+
44	44	Saarbergwerke	(70) Bergbau	5512	+ 10,2	32584	+	95	97	Dyckhoff & Widmann	Bau (135)	2170	+ 17,0	15614	—
45	54	UK Wesseling	(71) Mineralöl	4920	+ 31,3	2939	—	96	106	Philip Morris	Zigaretten (136)	2164	+ 25,3	2130	+
46	40	Audi NSU	(72) Auto	4903	— 5,2	29065	+	97	81	ROW	Petrochemie (137)	2163	— 5,1	3424	—
47	46	Viag	(73) Aluminium	4887	+ 13,6	26211	+	98	108	Chevron	Mineralöl (138)	2133	+ 26,8	268	+
48	52	Bertelsmann	(74) Verlag	4792	+ 20,1	29570	+	99	101	Axel Springer	Verlag (139)	2054	+ 14,0	12000	+
49	49	Thyssen Industrie	(75) Maschinen	4661	+ 15,1	39246	+	100	86	Enka-Glanzstoff	Chemiefaser (140)	2052	— 3,1	17153	+
50	47	Klöckner-Humboldt-Deutz	(76) Maschinen	4621	+ 8,7	29673	—								
51	50	Deutsche Babcock	(77) Maschinen/Anlagen	4567	+ 13,3	31187	+								

* Geschätzte (141)

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Key:

- | | |
|--|---------------------------------------|
| 1. Rank | 43. Steel/Shipbuilding |
| 2. Firm | 44. Pipes/Machinery |
| 3. Branch | 45. Steel |
| 4. Sales in million marks | 46. Electric Products |
| 5. Change in sales | 47. Vehicles/Electric products |
| 6. Employees in 1980 | 48. Nonferrous metals |
| 7. United Electricity and Mining Corporation | 49. Nonferrous metals |
| 8. Baden Aniline and Soda Factory | 50. Automobiles |
| 9. German BP | 51. Petroleum |
| 10. Rhine-Westphalian Electricity Works, Inc. | 52. Petroleum/Natural gas |
| 11. German Shell | 53. Petroleum |
| 12. Ruhr Coal | 54. Automobiles |
| 13. Metal Company | 55. Chemicals/Metals |
| 14. PREUSSAG Mining and Metallurgical Corporation | 56. Steel/Shipbuilding |
| 15. German Texaco | 57. Chemicals/Paper/Machinery |
| 16. Ford Works | 58. Automobiles |
| 17. German Gold and Silver Separation Installation | 59. Food/Washing machines |
| 18. German Unilever | 60. Vehicles/Machinery |
| 19. Augsburg-Nuernberg Machine Factory, Inc. | 61. Chemicals |
| 20. IBM Germany | 62. Electronics |
| 21. Krupp Steel | 63. Construction |
| 22. Huels Group | 64. Steel |
| 23. Kloeckner Works | 65. Construction |
| 24. Saar Mines | 66. Cigarettes/Beer |
| 25. Thyssen Industry | 67. Chemicals |
| 26. German Babcock | 68. Energy |
| 27. Energy/Oil/Chemicals | 69. Steel |
| 28. Automobiles | 70. Mining |
| 29. Electric products | 71. Petroleum |
| 30. Automobiles | 72. Automobiles |
| 31. Chemicals | 73. Aluminum |
| 32. Chemicals | 74. Publishing |
| 33. Chemicals | 75. Machinery |
| 34. Steel | 76. Machinery |
| 35. Petroleum | 77. Machinery/Installations |
| 36. Chemicals | 78. German Philips |
| 37. Energy | 79. Mannesmann Pipe Works |
| 38. Petroleum | 80. Continental Rubber |
| 39. Petroleum | 81. Roechling-Burbach Steel Works |
| 40. Mining | 82. Waldhof-Aschaffenburg Paper Works |
| 41. Machinery | 83. German Nestle Group |
| 42. Electric products | 84. German Solvay |
| | 85. Peine-Salzgitter Steel Works |
| | 86. Thyssen Refined Steel |
| | 87. Bosch-Siemens Appliances |
| | 88. Petroleum Chemistry |

[Key continued on following page]

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[Key continued]

- | | |
|---|----------------------|
| 89. Carl-Zeiss Foundation | 136. Cigarettes |
| 90. Rutgers Works | 137. Petrochemicals |
| 91. Enka Glossy Fibers | 138. Petroleum |
| 92. Photography | 139. Publishing |
| 93. Electric products | 140. Chemical fibers |
| 94. Pipes | 141. Estimated |
| 95. Cigarettes | |
| 96. Energy | |
| 97. Electric products | |
| 98. Power plant | |
| 99. Electric products | |
| 100. Petroleum | |
| 101. Air/Space travel | |
| 102. Pharmaceuticals | |
| 103. Tires | |
| 104. Steel | |
| 105. Paper | |
| 106. Food | |
| 107. Aluminum | |
| 108. Chemicals | |
| 109. Machinery | |
| 110. Pharmaceuticals | |
| 111. Machinery | |
| 112. Food | |
| 113. Chemicals | |
| 114. Refrigeration Technology/Equipment | |
| 115. Cigarettes | |
| 116. Electric products | |
| 117. Steel | |
| 118. Steel | |
| 119. Construction | |
| 120. Nonferrous metals | |
| 121. Energy | |
| 122. Construction | |
| 123. Electric products | |
| 124. Energy | |
| 125. Records | |
| 126. Petrochemicals | |
| 127. Gears | |
| 128. Nonferrous metals | |
| 129. Optics/Photography | |
| 130. Tar Chemicals | |
| 131. Milling facilities | |
| 132. Vehicles | |
| 133. Mining | |
| 134. Synthetic fibers | |
| 135. Construction | |

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ECONOMIC

ITALY

FINANCE MINISTER INTERVIEWED ON TAXATION

Milan IL MONDO in Italian 28 Aug 81 pp 14-16

[Interview with Finance Minister Franco Reviglio by Antonio Ramenghi: "Victims United"; date and place of interview not given]

[Text] The fury of 35 million Italians who are dutiful taxpayers will win the war against the tax-privileged. The latter are, however, still strong.

DC [Christian Democratic Party] Secretary Flaminio Piccoli accused Franco Reviglio of animosity in his confrontation with innkeepers; over the telephone, Piccoli had urged him not to meet with this powerful group of taxpayers. Reviglio answered with a threat to resign: if Piccoli had something to say, let him say it in public and face the consequences. Thus the long-contested tax receipt became mandatory with the consensus of millions of citizens. This is only one hitherto unpublished episode among many that have studied the ministry of Franco Reviglio. In 2 years at Finance, Reviglio has been the most loved and hated of ministers. Many have hoped that he might actually achieve fiscal justice, but they have been opposed, as he has, by critics who have accused him of being too much of an alarmist and creating an anti-tax climate in many categories of taxpayers. And even when Giovanni Spadolini's government replaced him with its most faithful party man, Socialist Rino Formica, not a few jumped for joy; but very many expressed their appreciation for a job well done, so much so that even today Reviglio still receives dozens of letters a day.

After relinquishing the reins of the small and ephemeral group of technical ministers, Reviglio accepted IL MONDO's invitation to review his work at Finance and tell what remains to be done to bring Italy up to European levels of tax justice. As Reviglio says very clearly in his interview, this goal is very far away.

[Question] How much tax evasion is still going on in Italy?

[Answer] That is very hard to say. I think that between tax evasion and erosion there is still a margin of at least 7-8 points in the national income. Yes, I think we are still at those levels.

[Question] That comes to about 28 billion lire, which is a lot of money. How do we compare to other countries?

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[Answer] With respect to those with a higher standard, take Holland for example, our tax evasion is 3-4 times greater.

[Question] And this despite the large gains made in the last 2 years: receipts grew from 52 billion in 1978 to 92 billion in 1981. What did the ministry find that was bad about this situation?

[Answer] You have to look at two different trends: the level of receipts with respect to national income and public expenditures, and the efficiency with which taxes are collected. Well, I found a deficit that was still excessive relative to the demands of public finances. Hence the first objective was to help shrink the deficit by increasing collections in proportion to the GDP [Gross Domestic Product]. On the other hand, the efficiency ratio did and still does leave much to be desired. But I would like to emphasize that the efficiency with which I had tax collections carried out in Italy in 1976, that is, since the last change in rates implemented by Minister Bruno Visentini, that efficiency has diminished because of a long period of double-digit inflation. In such a period, given our system of progressive taxation, a noticeable increase in tax pressure is brought to bear on categories of people who cannot escape income taxes, especially wage earners.

[Question] Because of the tax-rate structure then, inflation makes those pay more who are already paying taxes.

[Answer] Certainly. Inflation is an evil that must be fought; it produces many negative effects. But it was produced by something positive: the creation in this country of an invincible social bloc against tax evasion and injustice. This bloc would no longer admit that a dichotomy could exist between the tax-ridden and the tax evaders; it was a dichotomy that had grown to enormous proportions. A mechanism of institutional and political consensus was created that led to the real fiscal crisis in Italy. It is a crisis that we share with countries that are nonetheless different from ours.

[Question] In northern European countries, for example, taxes are lower because there are fewer public and more private services. But in those countries, the level of public spending for public services is already very high. This is certainly not the case in Italy.

[Answer] Actually, for us the fiscal crisis is not so much a generalized one as it is the reaction of some categories of taxpayers who are the most numerous and who have formed a social bloc. Their consensus has made it possible to launch a social project: legitimizing the institution of taxation (and more generally legitimizing the state) by reducing the area of tax evasion and legal loopholes. It has been done gradually, a step at a time. It has put into practice the slogan that we have repeated many times: if everybody pays taxes, taxes may go down. Inflation and the consequent tax revolt by millions of taxpayers have favored this action. This is the mechanism we have sought to put into effect: no corporate interest, no privilege can resist the mass of 35 million Italians who are wage earners, pensioners or their dependents. Individual privileges must gradually give way to this pressure. It is this political mechanism that has enabled us to do many things. It's like a battle: you have to have three waves of troops and a strategy.

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[Question] Yet there have been and still are very strong forces on the other side. These are the groups that enjoy broad privileges and others who are able to engage in outright and complete tax evasion. What are these categories?

[Answer] Describing the privileges would take as much space as the Encyclopedia Britannica. There are thousands upon thousands of tax exemptions. The biggest are in the agricultural sector, where the conventional base rate, for example, is 1/20 of income. And there are real, well-defined reasons of political economy why agriculture ought to get special treatment. It's beyond me how the farmer in Pianura Padana can earn 50 million lire a year and pay taxes on only 2.5 million. And real estate incomes are 3 times taxable income. Interest and dividends are either exempt as in the case of government bonds or, if they are taxed, are taxed at a flat rate, not progressively. These are the three sectors of major privilege as concerns tax payments in the narrow sense of the word. If you look at social contributions, which account for 40 percent of tax payments, you will see that there are exceptional privileges there, too, for agriculture, commerce, artisans, etc.

[Question] Where are the tax evaders?

[Answer] Just read our publications. Tax evasion takes place in all categories, all that have income not subject to withholding. The amount of tax evasion varies by sector and individual. And, of course, there is business income. In 1977, business declared 13 billion lire in losses and only 6 billion in profits. This is incriminating data; it cannot be attributed solely to a business slump. But I think the sector where the most tax evasion takes place is that of the VAT [Value-Added Tax]. This is where I was thinking of concentrating our audits. The latter have so far been quantitatively and qualitatively rather inferior to those allotted to IRPEF [family income tax]. Audits in some offices have already shown, and very quickly, how much can be recovered in that sector.

[Question] Who are the most powerful allies of the privileged and the evaders?

[Answer] I don't want to name any parties. But they are the parties that have mounted campaigns against any innovation of ours; but at the last moment they didn't go through with them because they couldn't risk alienating millions of wage earners. Then there are organized groups that are very powerful both economically and politically. The problem is that we have a political struggle between parties that cut across economic classes and have trouble countering these arguments. They all recognize that wage earners' taxes must be reduced, but this possibility is defeated. They say instead, let's reduce the wage earners' taxes and also reduce or at least not raise the others. This is a political move and a contradiction in the system.

[Question] But how are these interests organized? What is their strategy?

[Answer] Nowadays nobody can come out explicitly against the fight against tax evasion. Auditing is more subtle and sophisticated precisely because we saw a massive consensus for it. You don't say no to the cash register; you say "yes, but..." and there is a series of conditions. The same thing happened for putting handcuffs on tax evaders; yes to handcuffs for evaders, but....

[Question] How have these positions taken concrete form since then?

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[Answer] You would have to make a study of how parliament functions. In the last 30 years, sectional interests in Italy have succeeded in passing many, many laws in favor of sectional interests and very few for the common interest. This is the problem of how the democratic system functions in Italy. Democracy means finding compromises between the various conflicting interests. But when sectional interests are always put first, then the mechanism becomes corrupt. The issue that made me aware of the difficulties to be overcome was that of collective parliamentary options. And it's not because parliament doesn't work but because the decision-making mechanism is not adequate to the times and the modern democracy of an industrialized country. Here, everything is done by law, and the enormous demand for change requires an equal capacity to pass bills. However, they are not passed with thorough reasoning of political considerations, regulations and practice.

[Question] This is the context in which you began your activity and carried it out for the most part. The fiscal crisis has favored your work. Where did you begin?

[Answer] We began by working on a machine that had had almost nothing done to it. Besides, of course, collecting taxes, this machine is also supposed to accomplish the essential tasks of checking and investigating and to carry out the legal actions resulting from investigations. The work is enormous: every year there are 22 million IRPEF returns and 3.5 million VAT returns. About a hundred million returns have to be examined, because action can be taken on returns filed in the last 5 years.

[Question] And what is the capacity of the machine? What are its means and methods?

[Answer] Auditing capacity is now at about 300,000 returns a year. But when I took over, capacity was only a quarter as much. We introduced cross-checking for the first time, and it was essential. Another important fact: the introduction of auditing in fiscally dangerous categories and the elimination of discretionality, which allows distortions and even corruption, not to mention escape from societal control. The system of selective auditing gives the taxpayer the feeling that no impunity exists, because anybody can be selected for audit, and the selection criteria change from year to year. Before leaving the ministry, we managed to put out the bulletin on the selective auditing of taxable organizations. In this area the machinery is now running, and things are going very well, especially since collections are exceeding fiscal drag. In part, the increase in collections has been caused by psychological pressure: publishing tax returns, the red books. We have made enormous strides, although there is much left to be done.

[Question] Some people have accused you of being too unconcerned with administration.

[Answer] I think that is one of the most unfair things they could say. Our other great work has been to find a large area of consensus on administrative reform and to send bills to parliament. Hitherto, fiscal administration resembled an automobile plant producing motors for 5,000 cars and gears for 100. In the end, it managed to produce only a hundred cars. The whole production effort has to be redesigned. And here we have made studies, plans and proposals, always in concert with union organizations. Meanwhile, I pulled all the strings I could, with full attention to the official functions. Thus I blocked all transfers from the North to the South. Then I brought in a few thousand new workers, mostly in the North. Then we planned the Rome and Milan service centers, which will start up at year's end and be fully operational in 1982. They will achieve an extraordinary reform in administration. Some 13 other centers will follow those of Milan and Rome in the next few years.

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[Question] The thorn in the side of your ministry seems to have been the Finance Guards. How did they or did they not meet your expectations?

[Answer] The finance guards are very efficient and well trained. They are the envy of other countries. They have no problems with strikes or working hours. I found them to be even more efficient than I expected. Naturally I did not expect corruption.

[Question] Which reached the highest levels.

[Answer] Yes, the last events, from the oil scandal on, did unfortunately touch high level administrators and left obvious blot on the service. But it was only a small minority who did not do their duty, and many of them have been demoted or fired. The majority are clean and well trained. Rivalry must be avoided between groups within the Finance Guards. I also think we should reduce excess discretion, which is the root cause of corruption. The finance administration should be interested in this development, which should proceed gradually and limit personal intervention by increasing automation.

[Question] How, for example?

[Answer] One of the greatest forms of monetary fraud and corruption is found in international exchange, which in this country comes to large proportions: 150 trillion lire a year. If there is an information system, for example, that can tell us in real time the average value of merchandise passing through customs and what changes are reflected in the accompanying documents, then we can check abnormal cases and take action immediately. If the employee knows this checking can be done, he won't take any risks. But aside from the cases of corruption, I must say that administrative work was done in an atmosphere of cooperation. A service I thought was in disarray found its motivation.

[Question] Overall, then, it is a positive report. What are the results and, especially, the prospects for the future?

[Answer] Tax receipts relative to the GDP increased 1.8 points in 1980 and 1.8-2.0 points in 1981 for a total of more than 3.5 points, bringing tax pressure up to about 36 percent of the GDP. A large part of the increase (in 1981 lire, 3.5 points of the GDP comes to about 13 trillion lire), almost half the increase, has been obtained by reducing the area of tax evasion. For the future, as I have said, there is a lot to be recovered in the VAT area, but the real net is in public spending. The consensus in the tax office has had the result of causing the citizens in tax revolt to pay increased attention to public spending, i.e. to where their tax money goes. The problem of justifying public spending is an explosive one. In the 1970's a mechanism was created whereby public spending increased every year as a fraction of the GDP; tax receipts did not increase proportionately, so the deficit grew. People thought some kind of magic rule had been discovered, because nobody was paying for the increased public spending. Actually, when a deficit of huge dimensions takes on structural proportions, it produces very weighty negative consequences in some economic categories: unemployment, low job creation and slowed growth. I think the political issue of the next 5 years will be this matter of public spending. The citizenry must be told what public spending is; many people think it is a gyp and a waste.

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NEED TO REVISE LAW ON FLIGHT OF CURRENCY SEEN

Milan IL MONDO in Italian 28 Aug 81 pp 64-67

[Interview with Vittorio Barattieri, general director of production in the ministry of Industry, by Giancarlo Bussetti: "I Admit It, It Should Be Changed"; date and place of interview not given]

[Text] Vittorio Barattieri, one of the coauthors of the currency penal law, holds a long conversation with IL MONDO in which he gives an unprejudiced report on 5 years of struggle against the flight of capital. He makes some proposals.

The last famous person to feel the full rigor of the law was industrialist Giovanni Fabbri, who had to spend a couple of weeks in jail for an alleged attempt to export art objects and antiques. A few days before, the lightning of law 159 struck Roberto Calvi, president of the Ambrosian Bank; he was sentenced to 4 years for currency infractions. Between that time and the time when the law took effect in 1976, many representatives of the economic world were ground up in the law's gears: industrialist Piero Barilla; speculator Franco Ambrosio; Roman contractor Mario Genghini; Enzo Badioli, president of ICCREA [expansion unknown] (charged on successive occasions); Alberto Ortelli, a Milanese professional, who had established a most efficient organization for exporting capital to Switzerland; Vicento industrialist Tullio Campagnolo; and Italian-Panamanian businessman Jose Alberto Missri, who became a fugitive after exporting more than 50 billion lire to Switzerland.

But is this law really effective? It has caused more than 16,000 people to be denounced and a thousand Italian citizens to be arrested (see table); it has caused a little less than 2.5 trillion lire to be recovered in 5 years. Have the technical means provided for by law 159 really been suitable to stop the flow of money that has been going to cooperative foreign banks and financiers at an average rate of 8 million lire a day since 1975? Many doubt it today.

Law 159 is also being threatened to be cut off by an appeal of the Bolzano court to the court of justice in Luxemburg to ascertain at the highest EEC judiciary level whether the disposition of Italian currency is compatible with the free circulation of capital sanctioned by Community rules. Serious doubts about the compatibility of Italian legislation with EEC regulations are advanced, in fact, by important scholars such as Alfredo Gaito, professor of criminal justice at the University of Rome, and Giovanni Mangione, a professor of finance law at the state University of Milan and a member of the council of state.

(1)

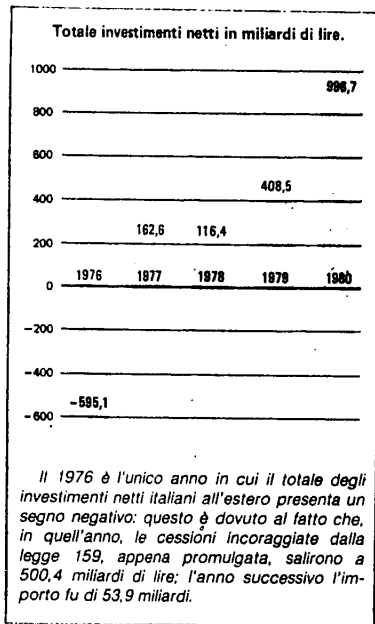
Quanto brucia la fiamma gialla <small>(servizio della guardia di finanza per la prevenzione e repressione delle violazioni valutarie)</small>						
	1976	1977	1978	1979	1980	Totale
(2) Violazioni accertate	2.593	1.900	2.067	1.939	2.092	10.591
(3) Persone denunciate	1.566	2.569	2.789	5.413	3.845	16.182
(4) Persone arrestate	195	184	156	210	288	1.033
(5) Sequestro di valuta e titoli di credito (in miliardi di lire)	12,7	8,8	6,2	9,4	14,6	51,7
(6) Accertata costituzione di capitali all'estero (in miliardi di lire)	225	82,7	—	—	—	308,3
(7) Accertamento altre violazioni (in miliardi di lire)	397,8	278,5	—	710,1	699,1	2.085,5

- (1) What the Yellow Flame [Finance Guards] Burns (service of the Finance Guards for the prevention and repression of currency violations)
- (2) violations noted
- (3) persons denounced
- (4) persons arrested
- (5) confiscation of currency and credit (in billions of lire)
- (6) ascertained transfer of capital abroad (in billions of lire)
- (7) other violations (in billions of lire)

A chorus of criticism has fallen on law 159 in recent months, especially from businessmen and banks. This criticism has been met by the government's attempt to draft a bill, which is being examined by the justice commission of the Chamber of Deputies. But is this enough to dispel all the doubts of interpretation, the contradictions and procedural trappings surrounding law 159? For example, Gustavo Visentini, a professor of finance at the University of Perugia, says, "The real danger is that this bill, which only partly modifies the preceding rule, gives a stable foundation and unfair recognition to a criminal law that needs rather preventive redrafting under civil administrative legislation." Giuseppe Mariani, in Rome, is one of the most important currency consultants; he reflects the mood of economic operators: "It would be a lot better not to do things hastily, to redo the entire currency law by reorganizing it in legally clear and acceptable terms." But Pietro Nuvolone favors the modifications introduced in the government's bill. He is one of the foremost Italian experts in currency matters. Nuvolone told IL MONDO, "Besides, it is to be hoped that the terms will be reexamined under which capital illegally held abroad is declared and nationalized; they should allow the interested parties all the time they need to normalize their position without penalty."

In sum, law 159 should be thoroughly revised. A few days ago, Guido Carli, a former governor of the Bank of Italy, touched things off by emphasizing the urgency of reforming currency regulations. But how? What should be changed immediately? Should the goal be a single piece of currency legislation? Is it the right time to allow a new normalization? IL MONDO asked these questions to Vittorio Barattieri, who has been general director of production in the ministry of Industry since January 1980. Barattieri, who is 38, is one who is thoroughly familiar with law 159, as he has been working since 1976 with the minister of foreign trade, Rinaldo Ossola, on restructuring the currency penal law.

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Investimenti italiani all'estero

Fonte: Banca d'Italia.

Italian Investment Abroad

Total net investment in billions of lire

The year 1976 is the only one in which total net Italian investment abroad is negative. This is due to the fact that in that year the concessions encouraged by law 159, which had just taken effect, jumped to 500.4 billion lire; the next year, 53.9 billion lire were imported.

Source: Bank of Italy

[Question] Five years after law 159 took effect, the chorus of criticism is swelling against many of the currency rules in that law. Do you share in this criticism? Should the law be radically changed?

[Answer] The currency penal law is certainly marked by visible defects. They are due to the haste in which the law was drafted, under extremely serious circumstances. Yet a revision is necessary, as Guido Carli rightly maintained recently, and revision was urged by former minister Ossola at the end of September 1978.

[Question] Yes, but Ossola and you, too, had great responsibility in drawing up this law.

[Answer] Everybody had his own responsibilities. Indeed, people continue mistakenly to make Ossola out to be the father of law 159; actually it was launched when he was still general director of the Bank of Italy, being a parliamentary initiative from the socialist group. When Ossola became minister of foreign trade, he redirected things rather to regularizing currency illicit before 6 March 1976; the original version would have allowed only small change to be brought back in.

[Question] One of the objectives that law 159 seems to have missed is, indeed, the return of capital exported abroad. So much so that some people say the law should be abolished completely. Do you agree?

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[Answer] These defects do not justify purely and simply throwing out law 159.. In fact, the defense of today's national economy, which is beset by destabilizing internal and external factors, requires the maintenance of exchange controls and, therefore, of the means of dissuading people who want to violate them. Otherwise the preferences of domestic investors would go to foreign financial markets, and precious resources would be diverted from domestic projects. The system of administrative sanctions that took effect in March 1976 has proven to be wholly inadequate to the task, but the currency penal law has done its thankless job rather well.

[Question] Even though the best form of dissuasion would be reliance on a rich and vital domestic economy.

[Answer] Of course. But as we wait for better times, we have to be realistic, even if it goes against our personal convictions.

[Question] Do you favor a new normalization that would affect, for example, so-called foreign investment activities (capital located in Italy and held by foreign dummy corporations (editor's note)) and the capital that a resident illegally holds abroad?

[Answer] Having seen first-hand the earlier experience with normalization, I have to emphasize the great difficulties that might strike such a provision, which would raise serious ethical and therefore political problems. I think that in any case a fresh normalization could make it possible to repatriate a vast amount of capital invested abroad, because the location of this capital will give investigative agencies especially interesting traces leading to related illicit funds. Holders of this capital are aware of this state of affairs, and they would certainly welcome the opportunity to normalize their situation.

[Question] As happened, at least in part, with the first normalization.

[Answer] In 1976 the most significant effects of the normalization affected this category of capital. For reasons easy to understand, though, I seriously doubt that a new normalization would be capable of bringing back to Italy capital that has completely abandoned our economy and been invested in foreign markets.

[Question] Among the strongest critics of law 159 are many businessmen who think these currency rules are harmful to Italy because they seriously restrict foreign trade. Do you agree?

[Answer] I don't think law 159 is in itself a serious obstacle to foreign economic relations, at least for those who are used to obeying the law. You have to remember that the currency penal law did not impose new restrictions but limited itself to penalizing with jail sentences the most serious violations of preexisting currency regulations. To see whether the continued and pressing complaints of economic operators are well founded, you must ask rather whether all the restrictions set by the currency law are really necessary and timely.

[Question] What do you think about the restrictions that are still not supported by economic operators?

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[Answer] During my service in the ministry of foreign trade, I came to the conclusion that, even as we keep the present law and not hurt currency reserves, it is possible to simplify procedures directly by broadly decentralizing functions so that the agent banks can use their own initiative in many operations now subjected to the preventive control of high-level services in the Italian currency system. That way, residents would have more freedom in their foreign activities, and administration would be improved over its present slowness and inefficiency due to the enormous amount of paperwork it faces.

[Question] Indeed, many operators complain that ministerial authorizations arrive months, even years late, which makes big productive and commercial opportunities go up in smoke. Many experts also criticize the vagueness of rules that have caused a huge, clumsy casuistry to emerge. They point to downright contradictory rules like article 1-a in the integrated text of penal laws on currency infractions, which punishes with 3 years in prison any resident who assigns to a foreign dummy corporation any capital located in Italy, even when the individual wants to bring back to Italy capital he owns abroad.

[Answer] Article 1-a is an aberration to the extent that it punishes bringing capital into the country. If it is necessary now to penalize those who export or form capital abroad, I don't understand why people should be punished for doing things that help our balance of payments. The best thing to do would be to abolish the rule.

[Question] In France, for example, foreign investment activity is taxed at a higher rate.

[Answer] If this rule is intended to discourage the use of foreign dummy corporations, then tax policy could be used, but not in a form that jurists consider practically incomprehensible for its purpose.

[Question] The recent legal proceedings against the president of the Ambrosian Bank, Roberto Calvi, for illegal formation of financial reserves abroad, have brought to light complex questions of commercial and business law. The most direct method, which is of course adapted to settling quickly the case of the tourist caught with his bankbook in his pocket, is this method also apt to shed light on complex cases such as that of the president of the Ambrosian bank?

[Answer] It is really absurd to use the simplest procedure for crimes that very often require extremely complex evidence. In such cases I think that the requirements of judicial procedure should make formal indictment mandatory.

[Question] The government bill intended to modify law 159 has been in the Chamber of Deputies judicial commission since last April; it introduces new elements, but it does not solve any big problems. Ossola has called it "if not a monster, at least a monsterette." For example, it sets 15 million lire as the cut-off between misdemeanor and felony. Is this fair?

[Answer] The 15-million lire limit will make it possible to remove from the area of criminal justice the huge number of infractions connected with the tourist trade. These are minor violations that only distract the judiciary from much more important tasks and that can be dealt with sufficiently through administrative channels.

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In the bill to reform the currency penal law there is a very timely provision for a definition of abbreviated currency infractions subject to administrative procedure up to 5 million lire, so that the defendant can settle his case immediately with a payment of 25 percent of the value of the infraction, and the state can collect the fine immediately rather than after many years and a lot of complex procedure.

[Question] But all this is made partly irrelevant by the fact that it is possible to add up the infractions committed in 365 days.

[Answer] The reference to the solar year has been eliminated from the final text of the bill to reform law 159.

[Question] This bill has a rule to favor workers normally living in Italy who work abroad. Do you agree with this?

[Answer] The bill to change law 159 broadens the category of workers considered non-residents for monetary purposes. If this proposal becomes law, we can be sure that, for example, resident professionals' pay received for work done abroad would no longer go towards increasing Italian currency reserves but would presumably be invested quite legitimately in foreign real estate or securities. We would have to recognize that the rule in question is based on a presupposed mistake and makes less clear the idea of what a resident is for purposes of currency exchange. We should then drop the rule and rather make administrative exceptions for fair monetary advantage in the cases of temporary workers and those living on the borders. Other emigrated workers already qualify under the law as non-residents for currency purposes and their income earned abroad is already exempt; it is useless to repeat all that.

[Question] Among those who have called most insistently in recent years for thorough changes in the law are administrators and bank workers, who are responsible for verifying the accuracy of the prices of goods imported and exported. Are these requests justified? Does the reform bill include them?

[Answer] It is a pure illusion that bank administrators and employees can verify the accuracy of prices in all foreign transactions under their jurisdiction, because nobody can know everything. But I think the government has made a sensible proposal to limit the penal consequences due to a lack of verification in the case only of financial operators in foreign trade. To puncture an out-of-date commonplace, I want to emphasize that since the currency penal law has gone into effect, agent banks have generally operated correctly and unfortunately have often shown an excess of bureaucratic zeal out of fear of law 159. Their present trustworthiness is another reason not to worry about letting them take over many tasks presently done by the central monetary authority.

[Question] Why does the government's bill limit the Finance Guard's authority to audit banks? Is the intention to entrust bank audits only to Bank of Italy inspectors or to those of the UIC [expansion unknown]?

[Answer] The government bill allows the Finance Guard access to the banks even without the preventive authorization of judicial authority. However, unlike what happens today, no general audits can be made, i.e. those extending throughout the bank, nor can exploratory audits be made, i.e. audits not justified by well-founded suspicion of specific currency infractions. Besides, general audits are already

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under the jurisdiction of the Bank of Italy, which does them very well, but the protection of privacy, which is a part of the bank-client relationship in Italy, can be justly set aside only when there is real suspicion that a major sum of interest to the state is affected.

[Question] The ministerial decree of last 12 March, which contains rules on currency and financial relations with foreign countries, misled operators, who saw themselves again being hampered by a mess of procedures.

[Answer] The decree of 12 March 1981, which went into effect the following September and gathers together part of the administrative regulations on currency hitherto scattered in many different places, is limited to a partial reordering of currency discipline but does not help streamline currency procedures significantly. If this decree is a starting point to reach higher objectives, then we will finally see implemented those fine proposals to lighten the load on currency exchange, proposals that were put forth by the recent ministers of foreign trade. Otherwise you will have to watch out, because the currency bureaucracy is jealous of its prerogatives and will have succeeded in imposing its own conservative opinions.

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ECONOMIC

UNITED KINGDOM

'TIMES' VOICES CONCERN OVER UK MONETARY POLICY

PM251343 London THE TIMES in English 25 Sep 81 p 15

[Editorial: "Something To Worry About"]

[Text] Washington has exported an epithet for the people who have been unloading shares on the stock markets with such abandon in London yesterday. President Reagan's treasury secretary Donald Regan calls them "worrywarts." The trouble is that though the London Stock Market may prove to be too pessimistic, as it frequently has in the past, there is something for the "worrywarts" to worry about in both countries.

Technical and political factors go some way to explain the mood. The persistence of high United States interest rates far longer than originally expected had already undermined American and Far Eastern markets and was beginning to have repercussions here before last week's deliberate hoist in British rates acted as a final trigger. That move pointed to a further delay in economic recovery, as costs rise and demand is further restrained. It also increased the return on fixed interest stocks--now, unlike during most of postwar history, a significant real return--to well beyond that on equities. Until that yield gap is narrowed, share prices will not make a sustained recovery. Even more worrying to the markets is the suspicion that interest rates have still not reached their peak, here or in America; money market rates in London are already looking to a further rise.

But underlying these factors is a broader anxiety for the United States as well as for Britain. It is that the counter-inflation policies being pursued by our respective governments--policies which the business and financial communities initially welcomed with unguarded enthusiasm--are going to be at least a little late in delivering their miracles.

There has been a qualitative change for the worse here. Until very recently the central debate was whether output could be stimulated without damaging the priority of reducing inflation. With the pound's fall, the question has now become whether it is possible to prevent inflation reigniting without deepening the recession. Sterling's decline this year, on the formula used by the treasury and the Bank of England, will add more than 3 per cent to consumer prices. The rise in interest rates to stabilise the pound indicates that the government now has an implicit exchange rate policy.

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There could hardly be less propitious circumstances in which to mark the approaching mid-term of Mrs Thatcher's ministry. Prices are today still rising faster than when her government took office. Unemployment is within a whisker of three million (up 1.7 million since May 1979). National output is 7 3/4 per cent below its peak in the early summer of 1979. Manufacturing industry alone is producing 16 per cent less.

There has been some improvement in productivity and recovery of corporate profits so vital for investment, but no government for half a century has presided over such a fearsome economic deterioration. Neither can these developments all be blamed on the world recession. It has been steep but Britain's performance has been worse than that of any other major industrial country.

It is not difficult, though depressing to describe the government's plight and dilemmas. It is less easy now to prescribe solutions: one would not, as they say, be starting from this place. If there had previously been an exchange rate policy, the peak could have been taken off the unmerited rise, accumulating reserves and limiting the damage to British manufacturing. Now whatever is said by the monetarist theoreticians, a decline in the pound will add to inflationary pressures, but a further sharp rise in interest rates will subject the nation to still higher levels of unemployment which in turn adds to social security expenditure and so pushes the PSBR further beyond target.

Clearly the broad thrust of this administration, reinforced by the most recent ministerial changes, will be to put its head down and try to see through the existing policy, with a few missed targets and doctrinal compromises, hoping for a fall of American interest rates and for exports to rise. That course might succeed politically, despite all the problems and failures described and predicted above. Governments do recover, even from the electoral and opinion poll depths recently plumbed by Mrs Thatcher. At the end of 1976 the labor government was flat on its political back, under medication from the IMF--but within 21 months Mr Callaghan had the option, in October 1978, to fight in election which many believe he would have won. Mrs Thatcher has more time than that to recover. However, there are differences: the world economic climate is now less benevolent than then to economic recovery and the monetarist medicine now being applied has already been applied for two years and so far the patient has not responded too well. It does look as if something more may be needed to assist the government politically and the nation economically.

Reality is well as expediency may require some give in the announced PSBR target. A substantial proportion of that deficit is made up of unemployment payments and debt interest; it hardly makes sense to maintain puritanical ambitions when world interest rates and Britain's jobless are rising.

A case can also be made for allowing the exchange rate to slip even further, especially against the European currencies of our main export markets. This would, if accompanied by lower interest rates and an early cut in employers' national insurance contributions, encourage industry to expand and invest and would create jobs. Along that path might lie the "virtuous spiral" of increasing tax revenues,

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declining social security payments, a falling PSBR and consequently further reductions in interest rates, etc. It might be a mirage. Even if a real prospect, it could only succeed if the inflationary pressures generated by sterling depreciation were contained by some kind of incomes policy.

The government already, of course, has an incomes policy of 4 percent in the public service sector. This is shrewd and fair and promises to be successful within its limited ambitions. The question is whether more is needed, possibly through attempting to apply 4 percent to workers throughout all the economy, or even to aim for a total freeze. The problem with resorting to such a comprehensive policy is that the risks of failure are increased, as the government confronts groups with great bargaining power, whereas the gains would be marginal, since large sections of private industry are anyway constrained by market forces. The public utilities are a different matter and whether or not the government extends its present incomes policy it must have support in reining in these greedy monopolies.

A total freeze, covering six months or a year, has the greater attractions of simplicity of concept and equality of burden in the crisis. However, its execution would be far from simple. It would impose a massive reduction on real incomes at a time when some corporate profits are rising and when the trade union movement is massively hostile to the government. Without the cooperation of the unions it would require an enormous imposition of Mrs Thatcher's political will, and it is not clear that her present level of popularity and credibility would ensure that. In collision with the unions she would provide opportunities for Mr Benn and his like to exploit the populist rhetoric. To some extent the prime minister's own rhetoric has made this option less viable. And she will surely set her face against another option being canvassed, that of exchange control. The sooner this is publicly ruled out the better.

The present crisis seems to be having one salutary effect. It may be forcing the recognition that no lasting solution is possible which is conceived within the boundaries of this island alone. The chancellor and the governor of the Bank of England have implicitly acknowledged as much in speeches this week, directed to the United States Government. Perhaps the call for the Americans to cut their public spending and lower their interest rates is somewhat impertinent in view of early criticisms of United States monetary laxity and our own failure to cut public expenditure, but the governor, in particular, must be supported in his criticism of the floating rate system and encouraged in his recognition of the need for the collective management of collective problems.

It is crucial to have international action towards more stable currencies. The chancellor should take on his worrywarts at the treasury and insist on Britain entering the European monetary system. That is only a first step to end what Lord Lever calls, in the business today, the manifest bankruptcy of the present unilateralism. That is a dirty word in defence--in our judgment--and it should be just as dirty a word in economics. Arguably America might be able to solve its problems by itself. Britain certainly cannot, even with the bravest of first lords of the treasury.

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POLITICAL

FEDERAL REPUBLIC OF GERMANY

POLLS FAVOR GOOD RELATIONSHIP WITH UNITED STATES

Hamburg DAS CAPITAL in German Aug 81 pp 90-94

[Text] Marginal Phenomenon

The loud agitations by leftist groups are suggesting that today's danger of war does not originate in the East but in the United States. Does that mean that the concept of the "ugly American" is prevalent among the Germans? Not at all. Elisabeth Noelle-Neumann found out: More FRG citizens favor a good relationship with the United States today than was the case 25 years ago.

If one asks the German population: "In your opinion, what foreign policy would be preferable--should we continue our military alliance with the Americans or should we try to be totally neutral?"--the majority of the population would prefer the alliance with the United States (55 percent compared to 31 percent favoring neutrality). Nevertheless, differences between the young generation and the rest of the population are significant: Whereas those belonging to the medium-age group--particularly the older ones--prefer the alliance with the United States by a two to one margin, the majority of the below-30 age group favors neutrality: 45 percent express the opinion: "Prefer alliance with the United States," compared to 40 percent who do not.

Apparently the growing sentiment of anti-Americanism is again a self-perpetuating combination of media reporting and the critical assessment of the United States among the young generation, particularly the "Greens" who are attracting public attention. Otherwise, when looking only at the data of an opinion poll representing the trends since the 1970's, there is no evidence of a growing anti-Americanism among the FRG population.

Between 1973 and 1981 there have been five opinion polls containing the following questions on German foreign policy: "Should we in the future cooperate equally closely with the United States and the USSR or should we cooperate more closely with the USSR or more closely with the United States--what is your opinion?" The answers have never been as much in favor of the United States as was the case in spring 1981: 56 percent voted for closer cooperation with the United States, in May 1973 it was only 36 percent.

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Even when the question is formulated differently during every other interview, reading: "If we had to make a decision for either one of these two possibilities--what is more important for the future of the German people--a good relationship with the United States or a good relationship with the USSR?" The result is the same: No indication of growing anti-Americanism.

The latter version has been used in the Allensbach opinion polls since 1954. At that time 62 percent stated that a good relationship with the United States is more important, 10 percent favored a good relationship with the USSR. In 1975 the fraction in favor of the United States had declined to 52 percent and 12 percent felt that a good relationship with the USSR was more important. Now, in 1981, 65 percent--in other words, a higher percentage than in 1954--are in favor of a good relationship with the United States.

An atmospheric anti-Americanism which might perhaps be detected, was expressed in a more distant relationship when it comes to being absolute followers of the United States as a leading power. Already in May 1980, when the question concerning loyalty to the Alliance was posed for the first time, many people were shocked by the interpretation of the German role in the Alliance as seen by the Germans. The question, which was again asked in May 1981, read as follows: "Considering the present situation in foreign policy, should the Federal Government lend total support to the United States or should it treat each case according to its own merit when it comes to deciding whether to support the United States or go its own way?" Already in 1980, 56 percent felt that "each case should be treated according to its own merit," a year later this opinion spread further; at the present time it is representative of 65 percent.

A year ago, 30 percent were solid supporters of the Atlantic Alliance, right now the figure stands at 28 percent. The tendencies are even more pronounced when the questions are phrased differently, emphasizing the character of obligation and reciprocal loyalty within the Alliance.

Germany Between the Big Powers

Question: "A very general question concerning German foreign policy: Should we in the future cooperate equally closely with the United States and the USSR, or should we cooperate more closely with the USSR or more closely with the United States--what is your opinion?"

<u>Choices</u>	<u>Oct 1977</u>	<u>Sep 1978</u>	<u>Jan 1980</u>	<u>May 1981</u>
More closely with the United States	49	51	49	56
More closely with the USSR	2	1	2	1
Equally closely with the United States and the USSR	38	36	41	32
Undecided	11	12	8	11

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Firm Support of America

Question: "Two people are discussing the relationship between the United States and us. Which of the two statements reflects your own thoughts more accurately?"

<u>Choices</u>	<u>Total result</u>	<u>Age groups by years</u>			
		<u>16-29</u>	<u>30-44</u>	<u>45-59</u>	<u>above 60</u>
"We must continue to lend firm support to the United States."	48	38	50	56	49
"It is no longer compatible with the new role of Germany that we submit ourselves in all areas to the American leadership."	35	43	38	33	26
Undecided	17	19	12	11	25

Foreign Policy--Each Case on Its Own Merit

Question: "A question concerning foreign policy. Should the Federal Government lend total support to the United States or should it treat each case according to its own merit when it comes to deciding whether to support the United States or go its own way?"

<u>Choices</u>	<u>May 1980</u>	<u>May 1981</u>
Total support of United States	30	28
Treat each case on its own merit	56	65
Undecided	14	7

All data in percentages.

Reacting spontaneously, is the feeling toward the United States one of likability or one of unlikability? The vocabulary test was designed in such a manner that rational arguments are ignored and feelings are displayed spontaneously, demonstrating Germany's feeling of likability for the United States.

When they see the word United States, 65 percent express likability, 17 percent unlikability. Over 60 percent of the supporters of the CDU/CSU, SPD and FDP say: "United States--likable." But the "Greens" deviate like a signal--apparently a different world and, to be sure, it is anti-American: 25 percent of the "Greens" say that the United States is likable compared to 46 percent who consider the United States "unlikable."

The "Greens" and the rest of the population do not differ a great deal with respect to their critical assessment of the United States. Sixty percent (among the "Greens": 81 percent) of the population agree with the view: "The Americans are a frightening example for the rest of the world because they are a consumption-oriented and throw-away society." Only 23 percent disagree with this view.

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Almost every other person among the adult population (47 percent, among the "Greens" it is 70 percent) think: "The United States is not sparing any means to strengthen its position as a world power. In the process they are even supporting fascist unjust regimes in Central and South America.

The thing that separates the majority of the population from the "Greens" is the fact that they do not only see the bad sides in the United States, but they see the bad and the good sides. It opposes, for instance, the view: "The United States is again headed toward the cold war and, consequently, making the world unsafe." "That is not true," 52 percent of the population (26 percent of the "Greens") are saying. Only 25 percent of the population are subscribing to the cold-war thesis: "Agree." On this point the majority of the "Greens" are of a different opinion: 56 percent agree.

On the other hand, almost 50 percent of the population again sees the United States in the role as defender of democracy. "Today the United States," one of the theses presented during the interview read, "finally is once again a reliable leading power of the West, which from a position of strength provides security against the East"--That is true, 47 percent of the population (15 percent of the "Greens") say compared to 26 percent who are opposing the statement.

The essential political reason for Germany's likability of the United States becomes evident in the sentence: "No other country defends democracy again and again or is as strong a bulwark against communist dictatorships as is the United States." Fifty seven percent of the Germans are saying, "That is my opinion." Only 21 percent disagree.

The reason why the likability is not easily tarnished is that experiences from the time following the collapse of 1945 are a factor. In May 1981, one of the questions read: "During the first few years following World War II it was important to establish a new democracy. In your opinion, did the Americans play a major or a minor role in achieving this goal." Fifty percent of the people said, "a major role," and an additional 29 percent said, "a fairly large role."

Nevertheless, strange signs are written on the wall: With respect to the future, the climate of opinions in the United States and the FRG differs in a remarkable way. In 1978 the American Gallup Institute came up with the idea of asking about what should be strengthened with respect to people's life styles and attitudes. In May 1981 we put the same question to the citizens of the FRG. In some areas Germans and Americans expressed the same aspirations: To place greater emphasis on the family, also on personal development and less importance on money. But in those instances where the population is preparing for the future and strong technical and economic development, the opinions of Germans and Americans are far apart.

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United States/FRG: Deviations

Question: "This list contains several items which could change in the future in our society. Could you tell me item by item whether you welcome or reject such a development?"

<u>Item</u>	<u>Choice</u>	<u>United States</u>	<u>Germany</u>
If in the future there will again be more respect for authority	I welcome it	89	53
	I reject it	6	30
	Undecided	5	17
If in the future more emphasis is placed on technical progress	I welcome it	75	48
	I reject it	12	26
	Undecided	13	26
If in the future work is taken less seriously in life	I welcome it	25	38
	I reject it	69	42
	Undecided	6	20
If in the future sexual freedom is accepted as a matter of course	I welcome it	29	28
	I reject it	62	45
	Undecided	9	27

United States/FRG: Concurrences

Question: "Could you tell me on each item whether you would welcome or reject such a development."

<u>Item</u>	<u>Choice</u>	<u>United States</u>	<u>Germany</u>
If in the future more importance were placed on family ties	I welcome it	91	88
	I reject it	5	4
	Undecided	4	8
If in the future more emphasis is placed on personal development	I welcome it	75	88
	I reject it	15	3
	Undecided	10	9
If in the future less emphasis is placed on money	I welcome it	70	60
	I reject it	21	21
	Undecided	9	19

All data in percentages.

Falling Tendency

The SPD--media representation and demoscopic data come up with the same picture--has reached a low point; a consequence of its own internal strife. In spite of it, however, in the eyes of the citizens respect for Chancellor Helmut Schmidt has remained untouched. Elisabeth Noelle-Neumann shows how the opposition is profiting from this fact, as is demonstrated by the question inquiring about the present intention of voting.

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In May 1981 the spectrum of party politics was restored to the position that existed between 1976 and 1978. Approximately 50 percent of the population indicated that they were CDU/CSU supporters.

Nevertheless, there has been a total shift in the make-up of party politics since the fall of 1980 and the Bundestag election; as a matter of fact, something has happened that has not been observed in the FRG for 3 decades, a unique demoscopic combination: The SPD is experiencing one of its worst slumps since the establishment of the FRG, and in early spring only 34 percent of the people indicated that they would vote for the SPD when asked the "Sunday question"--"If the Bundestag election were held next Sunday..." It appears that the SPD is almost returning to its former situation: It can get one-third of the votes, but no more--a situation it believed to have overcome.

The chancellor, however, is not affected by it. There is no evidence of past phenomena when the popularity of the party and its representative chancellor were linked together, well-known from the time of the Adenauer years as well as the times of Chancellor Ludwig Erhard and Chancellor Willy Brandt.

Of course, Helmut Schmidt's unshakable position is also an indication why the number of supporters of the SPD is declining. Impressions of what the SPD wants and what it represents--the image of this party--changed dramatically between June 1980 and May 1981. In the eyes of the voters, internal fights with the left wing of the party increased the detrimental traits of the party: "is experiencing internal strife"--"makes many promises that cannot be kept"--"has a few politicians whom I definitely dislike"--"in its speeches frequently ignores the real concerns and wishes of the population."

The fact that the SPD loses supporters not only when specific questions are involved, is evident from changes in opinion. For instance: "The SPD has extremely capable politicians"--was answered in the affirmative by only 41 percent. Earlier it was 56 percent. Or the question: "Has politicians who can be trusted"--received only 34 percent yes-votes compared to an earlier 45 percent. It is not necessary to ask who the politicians are, because it is sufficiently clear from a statement which had not yet been incorporated in the test of summer 1980. This statement: "The SPD is too soft toward the East," was answered affirmatively by 48 percent.

The CDU/CSU has therefore good opportunities in this area. It is accused of such softness by only 5 percent of the population. The CDU/CSU has now lost the odium of internal strife, which affected the party between 1979 and 1980--in the opinion of the voters it is almost the worst thing that can happen to a party. Thus, 34 percent of the population--twice as many as voted for the SPD--indicated that the opposition party is emitting optimism and confidence. Nevertheless, if one looks at the details of the image which is projected by the CDU/CSU to the population, one will recognize that in many areas only insignificant changes have occurred during the last 12 months.

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If Elections Were Held Next Sunday

Question: "If Bundestag elections were held next Sunday--for which party would you vote?"

<u>Item</u>	<u>Union</u>	<u>SPD</u>	<u>FDP</u>	<u>"Greens"</u>	<u>Others</u>
1981 opinion poll	50.7	34.0	9.2	5.7	0.4
1980 Bundestag election	44.6	42.9	10.6	1.5	0.4

Party Criticism

When ascribing certain characteristics to the SPD and to the CDU/CSU, the individuals contacted during the poll decided as follows:

<u>Item</u>	<u>Union</u>	<u>SPD</u>
Has extremely capable politicians	51	41
Has politicians who can be trusted	45	34
Conducts a middle-of-the-road policy	37	21
Emits optimism, confidence	34	16
Offers a guarantee that one will be well-off for a long time	23	12
Has a few politicians whom I definitely dislike	49	48
Makes many promises that cannot be kept	37	59
Is experiencing internal strife	18	55
In its speeches it frequently ignores the real concerns and wishes of the population	28	42
Favors its party-friends	22	36

Schmidt in Front

Question: "Presuming that a new decision had to be made as to who is to be chancellor, whom would you prefer--Kohl or Schmidt?"

<u>Item</u>	<u>Total result</u>	<u>Union</u>	<u>Supporters of</u>		<u>"Greens"</u>
			<u>SPD</u>	<u>FDP</u>	
For Kohl	30	61	2	9	7
For Schmidt	45	14	84	54	45

All data in percentages.

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POLITICAL

FRANCE

EFFECTS OF CONVENTIONAL, NUCLEAR STRENGTH, DETENTE ON DEFENSE

Paris COMMENTAIRE in French Summer 81 pp 188-196

[Article by Pierre Lellouche]

[Text] Although most Europeans--including their governments--would prefer to ignore the fact, it is becoming increasingly clear that the defense of Europe in the 1980's will be determined by three new realities.

New Facts in European Security

First of all, the Soviet invasion of Afghanistan in December 1979, by precipitating a major crisis between the superpowers, has led to a deterioration in overall East-West relations. Although the Europeans have done their best to reverse that trend, the very existence of detente--the key condition for security in Europe since the end of the 1960's--has been jeopardized. Beginning in the summer of 1980, the chances for saving detente were to become even slimmer due to the Polish crisis and the resulting threat of new Soviet military intervention in the center of Europe.

Politically, therefore, the security of Europe in the 1980's will have to be maintained in a new and probably long-lasting phase of confrontation between the superpowers. Armed with its rediscovered moral convictions and reviving nationalism, the United States during the coming decade will seek above all to reestablish its position as a world power and to contain Soviet expansion in the Third World. For its part, the Soviet Union, now assured of its global military power but uneasy because of its internal weaknesses, will continue to be preoccupied with the consolidation and expansion of its empire rather than with the demands for a genuine relationship of detente with the United States. Whether the Europeans like it or not, this situation will have a direct impact on overall East-West relations and on Soviet-European relations in particular.

In the second place, the basic conditions for Europe's security on the military and strategic level have also undergone some fundamental changes.

From the strictly military standpoint, the balance of power in Europe will continue to work in the USSR's favor throughout the 1980's. Considering the now-established parity between the central nuclear arsenals of the superpowers, the growing Soviet superiority in Europe--as regards both conventional forces and Theater Nuclear Forces (TNF)--will further reduce the credibility of NATO's "flexible response" strategy.

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In fact, the Europeans will find themselves increasingly caught in the following strategic "pincers";

1. Their persistent and worsening inferiority in conventional weapons will increase their vulnerability to a surprise attack by Soviet conventional forces, and for that reason, the Europeans will be more dependent on a first nuclear strike by NATO--one that will have to be made almost immediately after the start of hostilities.

2. But at the same time, the Soviet Union's recently acquired superiority in theater nuclear weapons, coupled with parity at the central strategic level, will have the effect of neutralizing in practice any attempt by NATO to bring the conflict up to the nuclear threshold.

It will be late in this decade before the new defense programs being launched or accelerated by the United States have any impact on certain components of the balance of military power--especially at the central strategic level. And the imbalances between conventional and Theater Nuclear Forces in Europe will be only partially reduced beginning in the 1980's--thanks to NATO's modernization programs (the modernization of TNF and the LTDP [Long-Term Defense Plan])--provided, of course, that those programs are completed.

Lastly, on a more global geostrategic level, the invasion of Afghanistan, following as it did the extension of Soviet influence into Ethiopia and Yemen, has radically changed the strategic map of the Persian Gulf region--a region that provides Europe with some 60 percent of its oil imports. Soviet penetration of that zone and the resulting strengthening of the Western naval presence (basically American and French) in that region have in fact widened the "front" of East-West confrontation beyond the traditional central zone--Europe--into a zone which itself is extremely volatile and unstable. The situation in this new theater is far from favorable to the West: geographic proximity works in the USSR's favor, and the local powers are afraid of seeing the Gulf region turned into a new arena of East-West competition. To quote Raymond Aron, "The Middle East is a vacuum, but a vacuum that refuses to be filled."

Americans and Europeans have reacted very differently to the transformation of the strategic environment in Europe and the Third World. While the events in the Gulf have caused an American "awakening" and the emergence of a new foreign policy that is much more "militant" and voluntaristic, the Europeans have tended to react with the greatest caution. Their attitude has only increased American irritation at what is perceived--at best--as new proof of Europe's traditional selfishness and, more and more frequently, as the sign of a slide by the Europeans into a sort of "self-neutralization" or "Finlandization." The fact is that neither the Europeans nor the Americans have thus far succeeded in working out a coherent strategy aimed at resolving the new strategic equation of the 1980's. On the contrary, the general reaction on both sides of the Atlantic has been to fall back on the solutions of the past.

The Americans, increasingly exasperated by their allies, are trying to revive the old "Atlantic" system of the 1950's and doing their utmost to return to the blessed days of U.S. nuclear superiority and absolute "leadership" of the Alliance. That explains the temptation in some American circles--close to the new administration--to take a tough line toward Europe and, if necessary, to abandon it to its fate. And for their part, the Europeans are for the most part dreaming of a miraculous return to the happy days of "perfect detente" that prevailed in the 1970's, a detente

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that allowed them to enjoy American protection within the Alliance while also cashing in on the dividends of European detente with their neighbors to the east. Other Europeans--a minority--are still dreaming of a "European Defense Community" that would give a united Europe the means of insuring its own defense and assuming a new role in world affairs. In fact, neither the "Atlantic" concept nor the notion of a "Europe of defense" corresponds to today's political realities. And neither of those notions can provide the framework for realistic options for the future.

Alteration of Atlantic Alliance

What has changed structurally--so to speak--in the Atlantic Alliance is the confirmation rather than the appearance (which occurred in the 1960's) of two major and inescapable historical trends, moving in opposite directions but reinforcing each other. First of all, there has been a relative decline in American power, both in the balance of power with the USSR and with respect to West European allies. But there has also appeared the pole of German power in a Europe that has in general turned "semi-Gaullist."²

That double transformation has been visible for some time now in the economic area: the quarrels in the 1970's over economic policy (the issue of the "locomotive"), the establishment of the European Monetary System, and the controversy over nuclear energy and nonproliferation reflect a new balance of power within the Alliance itself. As a result of the change, Europe has become as rich and competitive as the United States and is now capable of asserting and defending its own interests (in connection with monetary policy or nuclear energy, for example) against the wishes of the United States.

A parallel development, although more complex and less visible, has also occurred in the field of security. Here the essential transformation has occurred in the field of East-West relations, or, more precisely, in the increasingly obvious differences that have arisen between the development of U.S.-Soviet relations on the one hand and of relations between Europeans and Soviets on the other. The core of the problem concerns the basic difference between the European and the American commitment to and dependence on detente.

For the United States, detente turns out to have been merely a temporary phase in that country's history--a phase that had more to do with the constraints of the internal situation (Watergate and Vietnam) than with a clear vision of the USSR. As was pinpointed by Robert Tucker,³ detente enabled the United States to solve the problem of its relations with Moscow almost "for free" compared to the expensive policy of "containment" pursued in the past. At one point, in fact, detente came to justify the de facto renunciation by the U.S. Congress of the use of force in foreign policy (the War Powers Resolution). It also permitted a sizable reduction in the military budget following Vietnam (an average annual drop of 1.21 percent between 1970 and 1977) and a stabilization of the U.S. strategic arsenal at its 1968-1969 level. And lastly, it justified the theory of Mutual Assured Destruction (MAD)--that is, the renunciation by the United States of its strategic superiority, which was the American foundation for the SALT negotiations.

As a result, Soviet-American detente rested almost exclusively on its military content (and especially on arms control), while the economic or human elements remained negligible. And consequently, as soon as the Americans realized how far the balance

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of power had evolved to their disadvantage, and once they were convinced that the value of the arms control process to their own security was, after all, limited, they began to turn their backs on detente and to return to a more traditional form of power policy with respect to Moscow.

For the Europeans, however, and for the Germans in particular, the experience with detente could not evolve as it did for the United States. From the start, detente had an entirely different meaning in Europe, expressed in terms of almost daily human and economic interaction. On this side of the Atlantic, detente means stabilization of the postwar territorial status quo and the guaranteed security of Berlin. Economically, it represents access by European industrialists to new markets and to sources of the raw materials that they urgently need. Detente also permits a stabilization of budget efforts for defense at modest levels (from 2 to 3 percent of the GNP at the very most in most European nations). And on a wider political level, detente has also allowed the Europeans to assert their own identity in full safety in the face of the American leader of the Alliance.

"Gains of Detente" or New Vulnerability? The German Case

Such a situation poses three sets of problems, however: first of all, in the field of politics: when the "gains" become too sizable, they are transformed imperceptibly into equally sizable vulnerabilities. Thus, there arrives a moment when the idea of renouncing a "gain" becomes politically (or economically) too expensive, even if the other party openly violates the rules of the game. In the case of Afghanistan, for example, the Europeans have refused to pay the price of giving up their "dividends" from detente, even though that has meant accepting in practice the Soviet definition of that same detente's divisibility. The question then becomes: how far can the Soviets go before they go too far? For example, is Poland worth giving up detente for? But since nothing has been done in the case of a nonaligned country that is the victim of open Soviet aggression, why would things be any different in the case of a country that everyone recognizes as being part of the Soviet empire?

The second problem arises from the fact that the Western democracies tend too much to be blinded by the short-term benefits of detente and to forget that it can only be based on a stable and balanced relationship of power. Military imbalance can only produce an equally unbalanced political relationship. By forgetting that basic truth, the Europeans have gradually come to see in detente--and in its military corollary, arms control--a convenient substitute for continuous defense efforts on their part. In fact, as their dependence on detente has increased over the past decade, the Europeans have gradually lost their awareness of the fundamental importance of the balance of power, and their will to assume the costs of that balance has declined apace. The danger is therefore obvious: while detente has occupied an ever-larger place in the political life of the European nations, that political life has come to be based on a balance of power that is tilting increasingly in favor of the USSR. The danger is all the greater in that Europe's security depends on American protection. This is where the gap between the respective American and European commitments to detente creates the most severe problems. Because the time will come when Europe's dependence on detente will have a head-on collision with its dependence on the Alliance. That is an extremely fragile knot of vulnerability that the Soviets--not at all surprisingly--exploit continually with a view to "decoupling" Europe from the United States.

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Of all the European states, Germany is certainly the one which--because it is divided and because of its geographical location as the "first line" facing the Soviet empire--is most committed to and the most dependent on detente. Germany is also the country that has benefited most from what has now come to be called the "dividends" or "gains" of detente. Its Ostpolitik has given Germany the political dimension it previously lacked by endowing it with international recognition and making the FRG the center of gravity of East-West relations in Europe. A new decisionmaking pole was therefore created within the Alliance, and the United States lost its monopoly and in some respects its initiative as far as political relations with the East are concerned. For their part, the Soviets found a valuable "advocate" within the Alliance and a way of working for a possible "political decoupling" thanks to the system of "double detente" thus established: a detente between superpowers with the United States, but also a European detente with Bonn (especially) and Paris.⁴ For the Germans, the dividends of detente could also be measured in human terms (the return of 200,000 Germans to the FRG) and in terms of economic benefits (the FRG alone accounts for between 40 and 50 percent of all Western trade with the East). Lastly, detente also provided the FRG with more scope for diplomatic maneuvering, and this has enabled it to assert and defend its own interests.

But as was noted above, such a commitment to detente is unavoidably accompanied by tremendous vulnerabilities. The latter appeared plainly just after the Afghan affair, when Bonn refused to follow Washington's example in applying economic sanctions to Moscow. There is even reason to wonder whether the FRG would be willing to enforce such sanctions on a long-term basis in case of Soviet military intervention in Poland. Such vulnerabilities have also turned up on the political level. Just after the Afghan affair, the FRG, caught between pressure from Washington, which was asking it to prove its solidarity with the Alliance, and pressure from Moscow, which told it to save detente on penalty of jeopardizing its own security, managed to make no decision at all. To save their Ostpolitik without breaking with Washington, the German leaders had to go along with the boycott of the Moscow Olympic Games by their American protector, but made up for that gesture by attending the Moscow summit meeting in June 1980.

But it is in the area of security--where Germany is most shaky--that those vulnerabilities have appeared most clearly. This is the area where Germany is in a position of extreme dependence, both with respect to the potential aggressor--the USSR--and its ultimate protector--the United States. Two recent events--the issue of the neutron bomb and the long and painful process of negotiation within the Alliance that ended in NATO's December 1979 decision to deploy 572 new medium-range nuclear missiles in Europe--illustrate the FRG's basic dilemma in the age of detente.

Europe in Extended Order

The weakening of the Atlantic system that we have just discussed does not mean, however, that political evolution in Europe has reached a stage in history where the European states are already in a position to take charge of their own security and thus replace the Atlantic institution with the "third way" that certain Europeans have dreamed of since the abortive attempt to set up the EDC (European Defense Community) in the 1950's. On the contrary--and this is the essential difference with respect to the "great debate" in the late 1950's and early 1960's--the Europeans are no longer reacting in the same way to the decline (real or presumed) of the American nuclear guarantee. Twenty years ago, the "normal" European reaction was to acquire

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its own "bomb" (as France did) or to try to start European cooperation in defense matters (as was the case with the French-German negotiations of 1958-1963 or the Fouchet Plan of 1962).⁵ Today, on the contrary--and this is precisely what is most disturbing in the present context--each of the governments concerned has reacted separately in an attempt to preserve the status quo in the face of growing Soviet pressures and the rebirth of a strong pacifist and neutralist current. While some governments, particularly among the smaller members of the Alliance, decided purely and simply to reduce their military efforts, the others clutched desperately at arms control in the hope that those negotiations would miraculously succeed in restoring the balance of power while also justifying on the domestic political level the minimum military effort necessary for staying in the Alliance.

In such a context, European cooperation efforts in the area of defense have progressed scarcely at all, although the idea of a Europe of defense was mentioned several times during the 1970's by European leaders. Great Britain, for example, which had to decide whether to replace its deterrent force, has in fact never seriously considered the "French option." British leaders interested themselves exclusively in the American Trident system, feeling that the French M-4 missile was less satisfactory from the standpoint of requirements and performance, as well as more expensive and, above all, more of a political risk, since Anglo-American relations were at stake. And Chancellor Schmidt's FRG, whose attachment to the French-German "coupling" is nevertheless well known, stated very clearly its opposition to any idea of nuclear cooperation with France after that idea was mentioned from the French side by Buis and Sanguinetti. More than ever, the FRG is hanging on to its status as a nonnuclear state, which underlies a part of its relations of detente with the East, and, as in the past, Germany wants above all to avoid having to choose between France and the United States.

Paradoxically, the most positive development in the direction of a possible European option in defense matters has taken place in France, which nevertheless remains formally attached to the policy of independence set by General De Gaulle. We will not linger here over the details of doctrinal developments in French strategy since President Giscard d'Estaing's election in 1974, the main element of which was the concept of "enlarged deterrence" proposed in 1976. The fact remains that those developments have been considerable as regards both the terms employed and the thinking of French leaders. It is true that they refused to publicly support the TNF modernization plan, although such support would no doubt have played a decisive role in 1978-1979 during the political debate in Germany and would have greatly facilitated Chancellor Schmidt's task in dealing with opponents within his own party. It is true that the French leaders, so far at least, have carefully striven to keep their remarks deliberately vague concerning France's possible role in the security of Europe and particularly with respect to that of their German neighbor. It is obvious, however, that considerable progress has been made in that direction, as witness the many official statements on the tie-in between France's security and that of its neighbors and the decision to modernize its strike force--involving in particular decisions aimed at making the tactical weapons more flexible (with, in particular, the addition of enhanced-radiation weapons to the French arsenal). Clearly, the accepted French strategic model of only 8 or 10 years ago--limiting deterrence to French territory alone--has given way to a broader concept which, although still very vague, explicitly takes into account the security of our European partners and especially of the FRG. And it is interesting to note that the evolution of French strategic thinking has corresponded more to the new awareness of the problem of

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German security than to a perception in France of a change in the balance of strategic power between the superpowers. For a very long time, French leaders had in essence ignored the technical components of the SALT agreements, even though the latter reflected the balance of power between the two big powers, and saw in them only their political significance (essentially, proof of the American-Soviet "condominium"). The French did not really discover the military significance of SALT until after the Germans had publicly expressed their concern over developments in the balance of strategic power and their effect on the "coupling" and on the credibility of the American guarantee. Thus France had its own debate on SALT and the defense of Europe beginning in 1979--that is, after the big German debate on SALT II and the Euromissiles, which was started by Helmut Schmidt. And it was not an accident that the French debate, which was started by the Gaullists, revolved essentially around the problem of German security: France discovered, suddenly and somewhat confusedly, that Germany had its own almost Gaullist doubts about the credibility of the American guarantee. Following good French logic, a Germany that does not feel secure is a Germany that inescapably seeks other options for its security, either by imitating the French nuclear model or by seeking a form of separate accommodation with the USSR. Quite obviously, neither a nuclear Germany nor a "Finlandized" Germany, unified or not, would be a very satisfactory solution for France.

Third Way Between Atlantic Alliance and EDC?

Although a reorganization of the entire security system in Europe appears necessary and urgent, it is equally clear that the options presenting themselves to us are neither attractive nor very numerous. Considering current political realities both in the Alliance and in Europe, it is obvious that neither a return to the old "Atlantic" system nor the establishment of a theoretical "European Defense Community" is a realistic option for preserving security in Europe during the 1980's. Without political will on the part of the countries concerned, the European option represented by an "EDC" is doomed to remain in the planning stage for a very long time to come. Its attainment, which is possible in the long term, is in any case too far away to be of real help in solving the security problems facing Europe today.

At the other extremity, the purely Atlantic option scarcely seems attainable. The reason is that the golden age of the Atlantic system has passed; it is hard to see how the United States could turn back the tide of history by reestablishing both an overwhelming strategic superiority over the USSR and its leadership over a Europe that has become accustomed to a certain degree of political independence.

So for lack of a clear-cut solution, whether completely European or completely Atlantic, the only possible realistic option for the future will of necessity be a hybrid. It will also reflect faithfully the historical phase in which Europe finds itself today--halfway between a weakened Atlantic system and a European unit that is still in embryo. Such an option leads to a necessarily pragmatic--if not modest--approach aimed at achieving realistic objectives. That approach presupposes that Americans and Europeans will abandon their traditional tendency to regard the Alliance and European cooperation for defense as being mutually and almost naturally exclusive. For too long, the Americans and most Europeans have refused to consider any European alternative to NATO. That attitude has, incidentally, provided a convenient justification for continued American domination of its allies as well as for passivity by most Europeans when it has come to assuming responsibility for their own defense. The opposite tendency, attractive to some Europeans (and the French in

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particular), was to feel that Europe could exist only if it provided its own means of security outside NATO. In fact, that perfectly logical line of reasoning also served as a convenient justification for the inertia that has characterized European cooperation in security matters since 1954.

Our objective today should be to reconcile the Alliance with a determined effort to achieve European cooperation in defense. The gradual establishment of such European cooperation, carried out in parallel with NATO, would make it possible to:

1. Encourage a greater contribution by the Europeans to the defense of their continent.
2. Compensate for the decline in the credibility of the American guarantee.
3. Release the American military resources necessary for protecting vital Western interests in areas outside the NATO zone, while also clearing the way for a European military role in those areas.

The attainment of those objectives would in no way require the establishment of new institutions or even the renegotiation of the 1949 NATO Treaty--a task, incidentally, that would be nearly impossible and in any case risky. Neither would it entail the establishment of a new inter-European regional entity--and even less a supranational one. In this case, it would be sufficient simply to build on what already exists--that is, on cooperation in foreign policy and on the de facto complementarity that already exists among the armies and defense policies of the three principal European states. At the overall Western level, it would be a matter of consolidating the complementarity between European potentials and the American potential that is already a part of the Ottawa Declaration of 1974.

Those initiatives must be aimed at loosening the previously described Soviet strategic pincers through double-pronged action:

1. Raising the nuclear threshold--and this would mean a considerable strengthening of the conventional potential.
2. The implementation of means and of a doctrine capable of restoring credibility to the first use of nuclear weapons.

That double-pronged action would be based on the idea of strengthening the operational and strategic complementarity of the forces maintained by the three principal European states (France, the FRG, and the United Kingdom), with that complementarity to be achieved in parallel with NATO. Here we will simply mention in outline the measures necessary as far as conventional armament is concerned and lay more stress on the objectives of possible nuclear cooperation.

As far as conventional forces are concerned, the Europeans will have to deal with an increasingly difficult situation that will be characterized by two unfavorable trends:

1. Growing Soviet capability for launching a surprise attack on Europe, taking into account the balance of power existing before mobilization or the sending of reinforcements.⁶

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2. An American trend--and it will grow--toward moving troops and equipment currently stationed in Europe to other theaters when necessary (the Persian Gulf in particular).

What this will mean in the future is that the Europeans will have to do a lot more in the very area in which they have been least efficient (with the possible exception of the FRG and its Bundeswehr) and least willing to act in the past for all kinds of political, economic, and social reasons.

Obviously, it is not a question here of defining a program for modernizing conventional forces on a European scale. But we will make some general remarks. From the start, taking action to rebuild conventional forces will involve a certain number of financial--and therefore political--choices. It is clear that in view of the considerable inflation in the cost of armaments, such a buildup will require a sizable increase in European defense budgets beyond the current 3 or 4 percent of GNP--meaning a gradual rationalization of defense efforts which so far have been made separately by each of the states in question. Considering the sizable political, economic, and social constraints in Europe, it seems unrealistic to expect a sudden jump in defense budgets. Relatively speaking, catching up with the financial resources allocated to defense by the USSR (from 11 to 13 percent of the Soviet GNP) would mean tripling European defenses. Catching up with the United States would mean doubling them. The most one can argue for in Europe is an increase of 1 percent of the GNP--and that in itself would be regarded as an optimistic objective by any French, British, or German military planner.

This first budgetary constraint means that we will have to make better use of what we have. And that is the area where a lot can be done on a European scale.

First of all, a lot can be done in the joint design and manufacture of armaments. In this area, there have been many experiments in Europe, and some of them (chiefly between France and Germany) have been very positive--the HOT Roland systems, Alpha Jet, and so on--but others (more international in nature, such as the Tornado) have turned out less satisfactorily, mainly from the financial standpoint.

Second, the problems of coproduction, which are very complex (because they go beyond the military sphere to affect the economy, technological innovation, and employment), can nevertheless be solved provided that the political will to cooperate exists. The case of French-German cooperation is significant in this respect. So there is reason to think that a rationalization of production programs in France, Germany, and Great Britain will make it possible in the future to improve the quality of the systems while also permitting longer production runs and thus ending the current dispersion of resources and the redundancy of competing systems produced separately by each of those states.

But beyond the coproduction of armaments, the main effort at rationalization will have to be concerned with the overall concept of defense forces in the three countries. In this respect, greater operational complementarity and even a specialization of duties among European armies seem inevitable. Incidentally, that specialization already exists: the Bundeswehr is currently West Europe's strongest conventional army, while France and Great Britain are in fact nuclear powers to a greater extent than they are conventional ones (with France retaining a second specialization: external intervention). In the future, it will be a question of strengthening that specialization both operationally and financially. It is clear that France and Great

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Britain will find it increasingly difficult to finance the modernization of their nuclear arsenals and their conventional potential simultaneously. (And in France's case, we would have to add the cost of outfitting the external intervention forces.) Rather than scattering valuable resources in that way, London and Paris should intensify their nuclear specialization and be content with a main body that is smaller but better equipped than Great Britain's current BAOR [British Army of the Rhine] and France's First Army. For France, such a plan would have the advantage of permitting a rapid and needed modernization of its army and navy while releasing more credits for more numerous and more mobile intervention forces.

As far as nuclear weapons are concerned, it is clear that the French and British forces will be called on in the future to play an increasingly important role in the reorganization--which we consider inevitable--of the Alliance's nuclear posture in Europe. The reason is that as American credibility declines, the importance of French and British European forces increases almost proportionately--whether Paris or London likes it or not, incidentally. It is an almost natural development and one that could be compared to the interaction between communicating vessels. As long as the American guarantee was clearly protecting nonnuclear Europe, the two European nuclear powers could confine themselves--to their own great benefit--to a posture of minimal deterrence covering only their own territories. But as soon as that American protection weakens, those same French and British nuclear forces find themselves being hurled, as it were, into a European role. We should note, by the way, that their role--already recognized implicitly in the Ottawa Declaration--is being strengthened in fact by the quantitative and qualitative increase in the French and British arsenals, which are capable now and will become increasingly capable of covering more than just the national territory (this is true of the French forces, which will have MIRVed rockets beginning in 1985, and of the British potential, which will include Trident missiles armed with MRV warheads). In practice, it will therefore be important to confirm that "evolution"--which, let us repeat, is already underway--by assigning to those forces the trigger role in escalation to the nuclear phase, a role that is no longer performed credibly by the American systems alone. Because while it is possible that the Soviets may have reason to doubt whether the United States would defend the continent by engaging in a first strike with the nuclear weapons it has deployed in Europe, such a doubt would no longer be possible if the Europeans themselves declared themselves willing and were able to make that first strike in the defense of their continent. Such an expansion of French and British deterrence to include the FRG and West Europe would therefore have the advantage of offsetting the decline in American credibility while not eliminating (but, on the contrary, strengthening) the link with the use of the American central systems.

Conclusion

It would be illusory for the Europeans to believe that they can with impunity become a "big Switzerland" protected from external upheavals. Because if Switzerland--or Finland--exists today, it is precisely because other Europeans have so far manifested the will to exist as independent nations determined to defend themselves. And although such expressions are fashionable today, there will be no "Finlandization" or "Euroneutralism" in Europe, because there is no third way between defense and enslavement.

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FOOTNOTES

1. The program for modernizing theater weapons and that for conventional forces (the Long-Term Defense Plan) have been analyzed by C. D. Blacker and F. Hussain respectively, as well as by Richard Burt in "European Security in the 1980's."
2. See Fritz Stern, "Germany in a Semi-Gaullist Europe," FOREIGN AFFAIRS, Spring 1980.
3. See Robert W. Tucker, "America in Decline: the Foreign Policy of Maturity," FOREIGN AFFAIRS, "America and the World, 1979."
4. Incidentally, Moscow did not fail to play on that double detente just after the Afghanistan affair. The Soviet press noted after the summit meetings in Warsaw and Moscow that "the U.S. partners are continuing to cultivate the field of detente, while the United States continues to undermine it" (TEMPS NOUVEAUX, quoted in LE MONDE, 1 July 1980). PRAVDA went so far as to marvel at "the peacemaking role" (!) of the French-German connection (quoted in LE MONDE, 11 July 1980). For his part, Brezhnev warned Chancellor Schmidt during the Moscow summit meeting that the "United States couldn't care less about Europe's fate; if there is a nuclear war, it will be on the other side of the ocean" (PRAVDA, quoted in IHT, 8 July 1980).
5. See Wilfrid Dohl, "French Nuclear Diplomacy," Princeton, Princeton University Press, 1971, chs 2, 7.
6. On the central front, the ratio is currently 1 to 2 (27 NATO divisions to 46 Warsaw Pact divisions, or, in terms of battle tanks, 7,000 to the Warsaw Pact's 19,500). See IISS, "Military Balance," 1979-1980, pp 110-115.

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POLITICAL

UNITED KINGDOM

SOCIAL DEMOCRATS PUBLISH DRAFT CONSTITUTION

PM231507 London THE TIMES in English 23 Sep 81 pp 1, 4

[Report by Julian Haviland: "Policy Voice for Every Social Democrat"]

[Text] Leaders of the Social Democratic Party yesterday published a draft constitution designed to give every party member a voice in formulating policy and in choosing the party's representatives at almost every level.

Every member would have the right to choose by postal ballot candidates for election to Westminster, to the European Parliament and if they wish, to local authorities. The significant exception is that it would be open to the party's MPs to choose the parliamentary leader (who would be prime minister if the party held office) provided only that they were of one mind. That hitherto undisclosed provision, which, like everything else in the constitution is subject to ratification by the entire membership, seems likely to extend the controversy over choosing the leader, on which the four founder members are already divided.

There is to be a dual leadership. A president, who as leader outside Parliament would be the second most powerful figure, would be chosen by the whole membership.

The constitution incorporates the expertise of many constitutional lawyers and seeks to avoid the divisions notably over the manifesto and the rights of MPs, which rack the Labor Party. It provides for:

A council for social democracy--described as "the parliament of the party"--with about 400 members, elected every two years, and meeting at least three times a year. The council will debate and adopt policy.

A national committee, meeting monthly to run the party's affairs outside Parliament. It will include MPs, regional representatives and some members elected by a national ballot of all-party members.

There will be no corporate membership--"no block votes," Mr Roy Jenkins said yesterday. "Representative democracy has to work," Mr Jenkins said, "on the basis of a certain degree of trust--of independence and of people who democratically elected have the opportunity to make up their minds."

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Special provision is made at all levels for women representatives. Short-lists of parliamentary candidates must have a proportion of women and of men.

The national panel of candidates will include "a reasonable balance between both sexes and different age-groups, and include representatives of different social and economic groups and not ethnic minorities."

On the rights of MPs and their relationship with the party outside Parliament, the Social Democrats' constitution is explicit. "It is hereby declared that the parliamentary committee must have full regard to the election programme and all the statements of policy adopted by the council. But SDP members of Parliament shall not be mandated nor subject to direction or control by an organ of the SDP."

The president is to chair both the council and the national committee. But his position is carefully circumscribed, to limit the possibility of rivalry with the leader--the putative or actual prime minister.

The leader is to be chairman of the national committee's policy sub-committee, of which half the members will be MPs. The committee will formulate policy, "after wide consultation," for the council to ratify.

The constitution reads: "An election programme shall be based upon statements of policy adopted by the council, but if no statement of policy has been adopted on some issue which in the view of the policy sub-committee needs to be referred to, the sub-committee shall have power to pronounce a policy on that issue for inclusion in the programme."

Mr Jenkins said yesterday that the method of electing the leader would not cause great upheaval. The constitution provides that the MPs should first choose the leader from among their ranks. Each candidate would have to be nominated by 15 per cent of MPs, and the winner would have to be endorsed by the council. If endorsement was withheld, the choice would go to the whole membership.

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